STOCKS CONTINUE ADJUSTMENT TO REALITIES ★

The MAGAZINE of WALL STREET
and BUSINESS ANALYST

ARCH 2, 1957 85 CENTS

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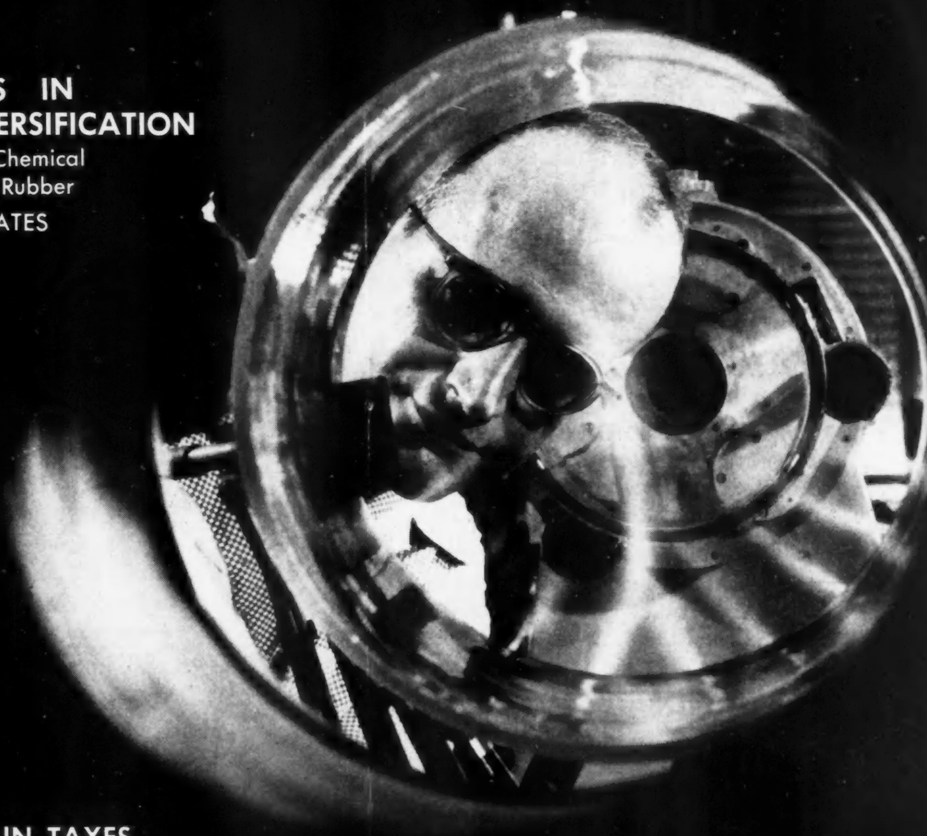
ORPORATE DIVERSIFICATION
—Olin Mathieson Chemical
—General Tire & Rubber
By WARD GATES



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—to Individual Buying Power
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THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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Telephone Lines for 1487-mile Pipeline

Telephone companies provide tailored communications service for natural gas pipeline to Pacific Northwest

One of the great construction projects of recent years was completed just a few months ago.

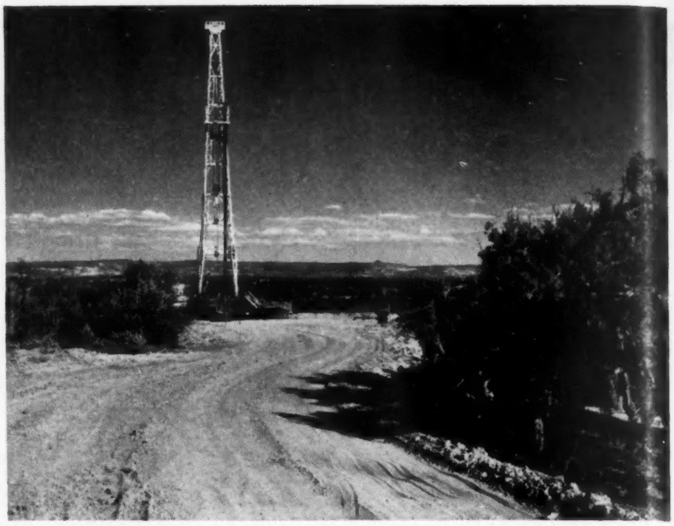
It's the Pacific Northwest Pipeline, popularly known as the "Scenic Inch" because of the rugged, picturesque territory through which it passes.

This 1487-mile pipeline now runs from the producing fields in New Mexico to the Canadian border of Washington by way of Portland, Oregon, and Seattle, Washington. It carries vitally needed fuel to the last sections of the United States that did not have natural gas.

Such a pipeline requires constant supervision and automatic control, and reliable communications are extremely important.

After long study, Fish Northwest Constructors, Inc., acting as agents for Pacific Northwest Pipeline Corporation, selected telephone company facilities based on cost, reliability, availability of alternate routing and experience in specialized service. Voice communication is in use now; telemetering, teletypewriter and other services are in the future.

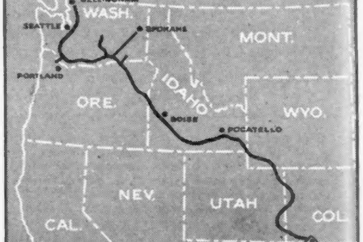
The furnishing of such private line service by telephone companies has grown rapidly in recent years and offers many opportunities for the future. New services are constantly being developed to meet particular needs.



DRILLING FOR GAS
Rotary rig drilling for natural gas in the San Juan basin, New Mexico. This is a major source of supply for the Pacific Northwest Pipeline.

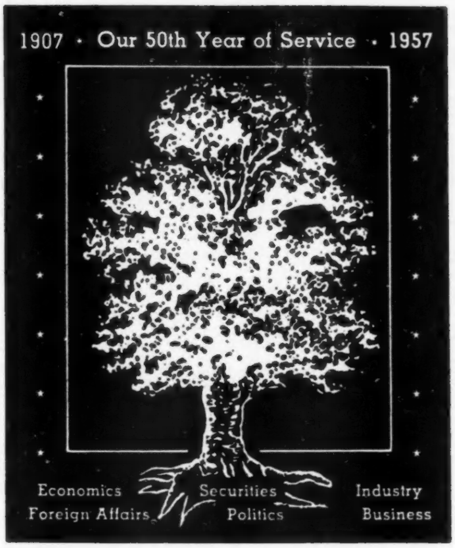
RUGGED COUNTRY
Fish Northwest Constructors' photograph taken as they were laying the pipeline across the Powder River, near Baker, Oregon, at 15° below.

PIPELINE ROUTE. *Communication facilities along the route are provided by the Mountain States Telephone & Telegraph Company, the Pacific Telephone and Telegraph Company and the Bell System's Long Lines Department, in co-operation with the General Telephone Company of the Northwest and the Midland Telephone Company of Moab, Utah.*



Working together to bring people together . . . **BELL TELEPHONE SYSTEM**

THE MAGAZINE OF WALL STREET
C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

PRESIDENT EISENHOWER'S THREAT TO ISRAEL . . . I believe the country was astounded by the illogic of the president's expressed determination to apply sanctions to Israel unless they "withdraw their forces at the Gulf of Aqaba and the Gaza Strip" (which is not part of Egypt). That he expected them to do so—regardless—because they were a moral and religious people, while the Russians were Athiests! This left many of us amazed and confounded.

And when he further said that "the failure of Israel to withdraw would be a blow to the authority and influence of the United Nations in the world, and to the hopes which humanity placed in the United Nations as a means of achieving peace with justice"—we were bewildered.

This latter is a most amazing statement, since up to date the United Nations has failed to assert its will and exert any influence whatever in preventing the many local wars which have been breaking out in various areas all over the world. Nor has it succeeded in promoting justice. In fact, the U.N. has never scored even one real hit. Every so-called victory presented was merely based on a face-saving formula. Nor hav they penalized any country for failure to carry out its pronouncements, or even applied moral sanctions to Russia for her barbarism in Hungary and Poland – and permitted India to go unpunished for the recent flagrant action in Kashmir against U.N. authority. And to make matters worse, Pandit Nehru, following in the footsteps of Russia, has stated he would not even permit a U.N. Commission to set foot in Kashmir! And yet the President did not even mention Nehru, let alone insist on India's compliance on moral grounds.

Does the President mean that the continued frustration suffered by the U.N. requires one small country as a sacrificial lamb to uphold U.N. prestige—which Nasser, Nehru and the Communists have already reduced almost to the vanishing point?

To say the nation was astounded by the President's statement and insistence is putting it mildly, especially in the face of the general disapproval by key Democrats and Republicans in Congress and citizens in the country at large.

It somehow seemed, as I listened to him, that he was confused. It was unlike him to go against the wishes of Congress, whose continuing goodwill he has sought so ardently. I even wondered whether he was aware of the statement by Dag Hammarskjold, that he considered the applying of sanctions against Israel to be unsound and likely to provoke dangerous repercussions.

Nor was the President's statement very well received abroad. Reports from Britain and France show outraged feeling so intense that it cuts through party lines—and West Germany went out of its way to say that reparations to Israel would not be subject to sanctions. Only in the Arab world has there been satisfaction expressed – and Cairo is jubilant.

The insistence of President Eisenhower, and the various steps he has taken, including the calling in of Jewish leaders in an effort to force his will on Israel, is making it more and more difficult for him to retreat without great loss of

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS::1907–*"Our 50th Year of Service"*–1957

prestige, which is now bound to result in any event.

We can only wonder what is behind all this. It certainly is not the oil companies, who are under enlightened and sophisticated management. They have nothing to gain from the economic dislocation and political reaction that would follow in the wake of the destruction of Israel. What individuals, therefore, have been misleading the President? We can only assume that they are dangerous men, possibly with an Hitlerian complex of religious intolerance—and utterly devoid of common sense.

Across the country the nation's civic and religious leaders have widely expressed their astonishment. It is so contrary to the moral concept reiterated again and again by President Eisenhower. Aghast at the President's stand, the Very Reverend James A. Pike, Dean of the Cathedral of St. John the Divine, in a statement declared it would be foolhardy as well as unjustifiable to expect from Israel, and not from Egypt, a prior compliance with the armistice agreements and with the United Nations Charter.

Those of us who have greatly admired the President are shocked. And, we can readily understand the anxiety of Republican leaders, who think in terms of 1958 and 1960. This situation certainly calls for clarification.

MANAGERIAL REVOLT . . . Just after sending to press our story on the "Peril Point in Taxes", which appears in this issue, some very interesting material from London came into my possession relating to this very matter. It deals with the effect of high taxes on purchasing power, and how it deadens the initiative of the managers of our economy, who pay a great share of their income in taxes.

Referring to the pall of despondancy which hangs over Britain, it pointed out that the chief issue was not Suez, but matters of the domestic economy—the cost of living—the rent control bill—and unbearable taxes; and, said the conservative "Daily Mail", "the uneasy awareness that successive British governments have gone stumbling and bumbling from one expedient to another, offering no lasting or genuine solutions to the country's real problems." That is also true in the United States.

To quote from the report of Mr. Howard K. Smith, Chief European correspondent for CBS News, on the matter of taxes—"Put in more specific terms, personal achievement has become extremely limited in Great Britain. After a certain level of income, the world's highest tax incidence absorbs most of the reward for hard work."

"Figures published here this week show that it is the managers—executives—the upper middle classes, who are, in fact, financing Britain. *They are reckoned to constitute a little over five percent of the population*, but *they pay* 33 *percent of the nation's tax bill.* It is small wonder, in the circumstance, that they now seek increased leisure rather than increased income, which would be taken away in taxes. That is one of the chief reasons why production is lagging and Britain is having a hard time competing against Germany, Japan and the United States and the world."

"The British have reluctantly borne the tax burden, so long as it has been accounted for, in large part, as the cost of remaining a big power and maintaining strong defenses. The Suez adventure shattered that reason for remaining paitent. But now the patience is gone, and has been replaced by a powerful sense of frustration. A *Gallup Poll last week claimed to have found out that two out of every five Britons would emigrate from Britain if they could.*"

In our own country the strain of taxation is being felt more every day, and the unreasoning uneconomic stampede by pressure groups are helping it along.

Demands for American men with know-how and management capacity are coming from our neighbor, Canada, and from countries around the globe where lower taxes and opportunity exist. Steps must be taken *now* to avoid this loss of creative and managerial brains. They are the backbone of our industrial power.

The lesson is here for all to see. But it will take sound, realistic planning and inspired leadership to bring understanding of the dangers—and the will to take the common sense steps necessary to turn back the tide of disintegration.

EMANUEL CELLER AND MERGER CURBS . . . A great deal of the trouble that we are having arises from the fact that too many politicians try to solve problems rhetorically and deliver speeches on technical matters to those who are not able to distinguish the wheat from the chaff.

Actually three things are really responsible for mergers today . . . (1) *taxes*, which make it impossible for a small company to accumulate the reserve and working capital necessary under today's conditions—(2) the *high cost of labor* in competition with that of the great corporations, for in most cases they are not geared to meet the same terms and therefore are in no position to compete for labor—and (3 the *cost of research* and *sales* and *advertising programs* necessary to compete—to win new markets—or to develop and exploit new products.

Mr. Celler seems to be dealing with the effect and not with the cause that is inexorably driving small business to merger or liquidation. How about tackling the real problems Mr. Celler?

FRANCO WORRIES U. S. AIDES . . . And well they might be upset over the cabinet reshuffling taking place in Spain, because it is clear evidence of the lack of confidence in what the United States is likely to do at any given moment in relation to Spain. It is the aftermath of our action in the British-French-Israeli crises, following a series of one switch after another by our State Department.

In the rough and tumble of Spanish politics, the new strength resulting from the Falange victory at the same time might stir up a great deal of trouble for us in South America, where Spain has always been looked to as the mother country and wields vast influence among the leaders and people there. In fact, the South Americans have recently complained that they have been neglected and the Middle East favored in our foreign aid planning.

Altogether, it shows the need for the kind of strength that is imperative in our State Department to impress and hold the respect of leaders in the various countries today.

As I See It!

By JOHN LIND

THE "SWORD OF DAMOCLES" HANGING OVER THE WEST

About half way down the Suez Canal lie two small wrecked ships. They are the last of the forty which the U.N. salvage force was called upon to remove.

In the days ahead the names of these two tugs, Edgar Bonnet and Nabukir, are likely to make the headlines of every newspaper in the world. They will also become a monument for all peoples to see that Egyptian dictator Nasser's purpose is to weaken the West – that his word is worth no more than the sand of the desert, for according to all reports, Nasser has decided to hold up the raising of the Edgar Bonnet and the Nabukir, for the purpose of forcing a decision in his favor regarding the Israeli matter, and in exact accordance with his wishes.

That is the price Nasser seeks to exact from the West to restore the trade and commerce of suffering countries to whom the Suez Canal is a vital waterway. But how long? Only until other avenues can be found – and we are finding them – because the West and the world is aware that you can't do business with Nasser.

When Egypt nationalized the Suez Canal, Nasser made a solemn declaration before the world that he would continue to respect the 1888 convention which established the Canal as an international water route. When the U.N. tried to find a compromise solution to the Canal dispute last October, Egypt officially accepted a resolution containing six basic principles of which the most important was the complete insulation of Canal operations from political affairs. When the U.N. offered to repair the damage which Nasser had wantonly caused to the Canal, Egypt fully accepted the U.N. resolution calling for unconditional reopening of the waterway as soon as technically feasible.

By the one act of refusing permission to raise the two tugs, Nasser is brazenly violating each one of these international obligations before the ink with which they were written has dried.

Of course, Nasser himself is fully aware that an outright admission that clearance of the Canal is tied to the outcome of his dispute with Israel would mark him publicly as the greatest liar in the field of international affairs since Hitler and Stalin. Still worse, it might even embarrass some of his fans in our State Department. He has therefore borrowed a leaf from Stalin's book of tricks. Just as the Russian dictator during the blockade of Berlin in 1949 never once admitted officially its real purpose (to dislodge the Western powers from the city) but always claimed that the roads and rails leading to Berlin were in a state of "disrepair", so the Egyptian dictator has told the U.N. salvage chief for some twelve days now that the explosives attached to the Edgar Bonnet made its salvaging an operation of such danger that he did not know when it could take place. Technically this is, of course, sheer nonsense. The U.N. salvage force has accomplished such improbable feats in the last two months that these two small tugs would present absolutely no problem. But once they have been removed the Canal would be open to medium-sized ships and Nasser would have to admit publicly his political reasons for keeping them out.

'ISN'T IT ABOUT TIME FOR ACTION?'

Doyle in The Philadelphia Daily News

Of course, the West can not afford to give in to this coercion, if only because blackmailers always feed on blackmail. Each success makes them rely more on the instrument of coercion in their hands.

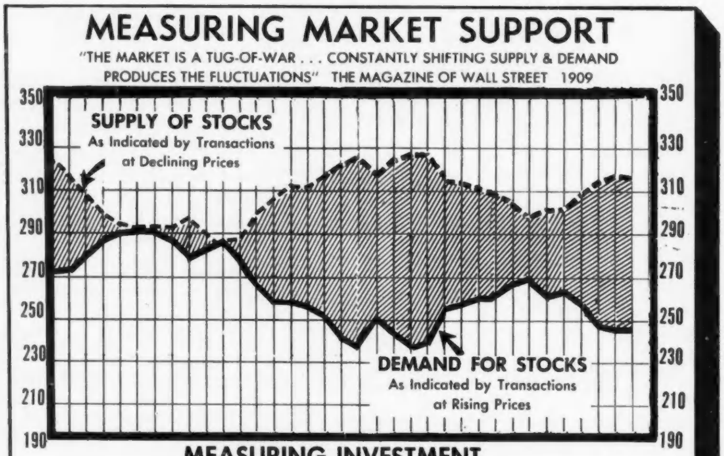
The United States received a foretaste of this last fall when the Egyptian government suddenly requested the U. S. Navy to give ten days notice in the future before sending any naval vessel through the Suez Canal. Our navy refused and before the dispute took on larger proportions it became temporarily academic with the blocking of the Canal. The little-publicized incident shows the absolute impossibility of trusting Nasser with the management of the Suez Canal, or, in fact, trusting him at all. His real ambition is not only to destroy Israel but to set up a gigantic Moslem empire from the North Atlantic to the Indian (*Please turn to page* 734)

Stocks Continue Adjustment To Realities

The market has had a moderate technical rally from an over-sold position. Chances for some extension of it are problematical. A test of the February 12 lows in no great time seems a reasonable expectation, and should be allowed for. A major decline appears improbable, but a conservative, discriminating policy remains in order. You should hold ample reserves.

By A. T. MILLER

Four consecutive days of decline, footing up to about 16 points for the daily industrial average, took it a decisive 7 points under the long-maintained 460 support level by February 12; and resulted in at least a temporary over-sold position. A moderate rally followed, but showed tentative petering-out indications last week. The breaking of the 460 level "confirmed" a bearish trend, dating from the April and May, 1956, highs of the industrial and rail averages, respectively. The scope and duration of such downtrend are unpredictable. Therefore, one should keep an open mind – and ample reserves in cash or equivalent – at this time, even though the fundamentals, in our judgment, appear to argue against wide further decline in the averages.



It is nothing new for a "confirmation" of a trend to be followed promptly by a seeming double-cross, because the market seldom does what a majority of people expect at a technically critical point. It will usually confound apparently logical expectation as regards timing or scope of movement or both. Too many people expected a wide break with little or no delay, once industrials broke the 460 level. So the market rallield.

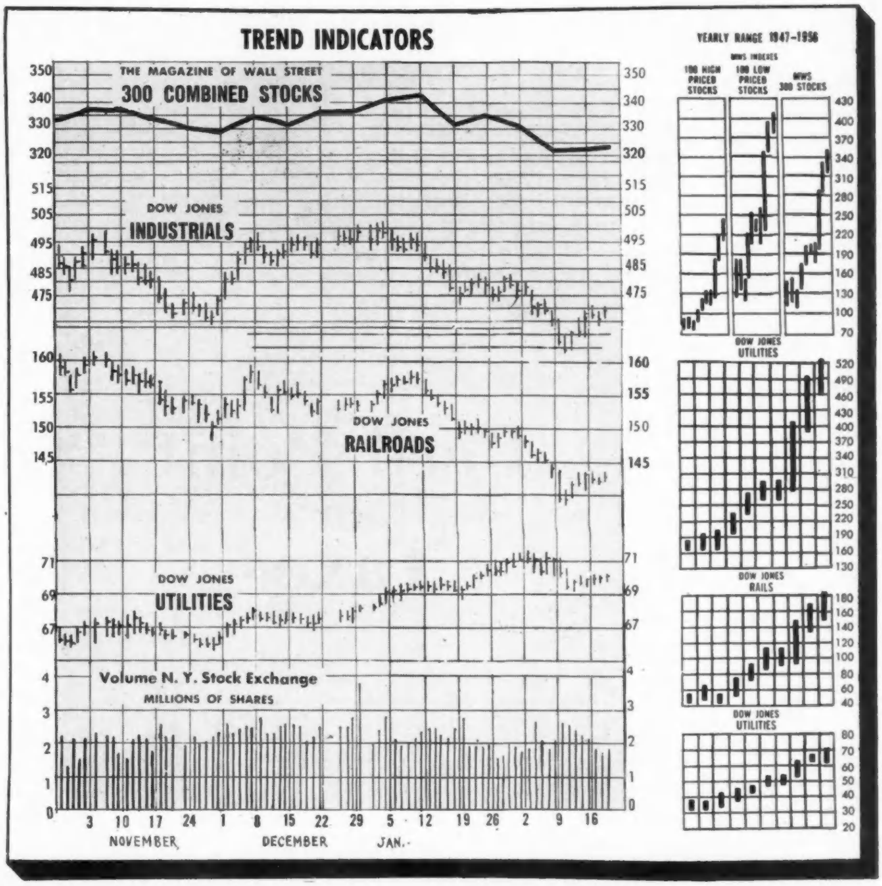
The Technical Picture

Typical of a downtrend market, we have now had a succession of irregularly lower tops and bottoms in the industrial and rail averages since the spring of last year. Following a recovery swing, the latest "leg" of decline for the industrial average started at the turn of the year from a December 31 rally high and amounted to nearly 46 points at the recent low; while for rails it dates from a January 10 rally level and amounted to more than 18 points. At last week's best rally level, the industrial average has made up less than a third of the phase of decline cited, rails little more than a fifth. At this writing it is unclear whether we have seen a minor and brief rebound or whether—possibly after some additional limited gyrations above the February 12 lows—it will develop into a larger recovery lasting several or more weeks. If the latter, a recovery of around half, or even a bit more, of the

January-February downswing could be rationalized on technical grounds in the existing psychological environment.

It is an environment in which most investors are neither confidently hopeful nor "scared stiff". It is an environment in which the general business outlook is uncertain and under active pro and con debate, but in which there is not yet evidence that the scales have already tipped definitely to a general business recession.

Uncertain prospects for general business activity, dubious prospects for aggregate corporate earnings even if volume holds close to present levels through the year, and restricted potentials for betterment in 1957 dividends are on the restraining side, especially since the market is still at least medium-high, rather than depressed, when viewed in terms of price-earnings ratios, dividend yields and the spread of the latter over available bond yields. Aside from these fundamentals, there is a question whether the technical base provided at the February 12 lows was strong enough for a really vigorous rally.



Certainly as judged by the technical standards heretofore considered more or less normal, it was a mild selling climax—if a climax at all—thus possibly detracting from rally possibilities. Trading volume was only 2,740,000 in the heaviest day, with a break of 8.85 points by the industrial average.

Although it could change, given demonstration of support above the recent lows on nearby market dips, confidence in upside potentials is relatively low at this writing.

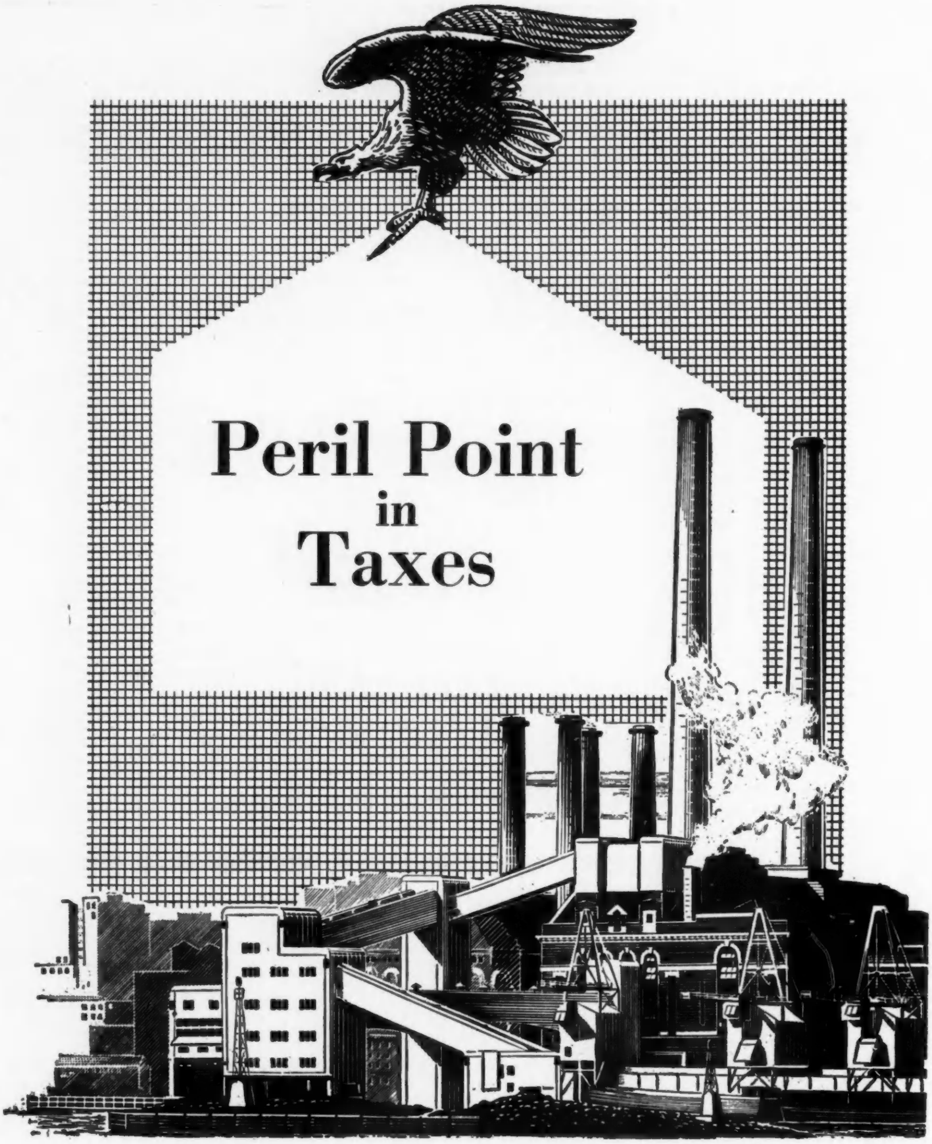
Some Pros And Cons On Business

The Reserve Board's seasonally-adjusted index of industrial production dipped a nominal one point in January from the record December level, remaining a modest three points above its average 1956 level. Looking at the components, actual output of soft goods and minerals was barely changed from the year-ago level; and production of consumers' durable goods, including automobiles, was appreciably lower than a year ago. This means that the year-to-year gain in output of durable goods and in over-all production rests decisively on activity in the capital goods industries. It is at least doubtful that it will be maintained, in view of shrinkage of new orders in the steel, machine tool, rail equipment and some other capital-goods industries. Hence, there could be a slow-down in business ahead, regardless of increased governmental spending and of moderate year-to-year gain so far in total consumer spending. Although the consumers' price index is at a new peak, the sensitive daily index of primary commodities has receded over 6% from its November peak level, now standing where it was a year ago. Industrial raw commodities and metals are well down from a year ago.

At recent lows, the market's maximum decline approximated that of 1953, but remained under the proportions of the 1948-1949 and 1946-1947 declines; and far under that of 1937-1938. The latter probably can be dismissed from the comparison; and, in our opinion, the 1929-1932 "bust" surely can. But nobody can say whether the risk of additional decline in the industrial average—which was down 13.6% at worst to date—is 5%, 10% or 15%. Those who have followed our previous advices to take some profits, pare down speculative holdings and build up reserves are in a comfortable position. They can sit tight (since there is nothing to suggest that a "sell everything" policy is justifiable) while awaiting selective buying opportunities. It is more difficult to advise those who are still over-loaded with common stocks. On the one hand, it does not make sense to get more and more bearish in a market decline. On the other, the downside risk at this stage might still be substantial. Probably the prudent policy is to keep your best-quality stocks and use professional methods of insurance as suggested in our story on puts and calls on page 702 in this issue.

—Monday, February 25.

Peril Point in Taxes



By HOWARD NICHOLSON

When those who spend the money—also make the budgets, and decide on what the taxes should be,—it is time to think, and ask where we are headed.

Several years ago, the windows of New York City subway cars were bedecked with a sign which seemed to pass largely unnoticed in the rush hours, but might well have struck terror into the heart of anyone with the time and inclination to examine it closely. The city's voters were about to pass on a proposition to allow the city to borrow in order to extend one of the subway lines further into the suburbs. In effect, the sign read, "Vote yes on Proposition X. The construction work will provide employment for thousands". No mention of the need. No mention of the cost. Those responsible for the sign were, of course, the very administrative body which would do the construction, hire the workers, and manage the completed properties. And the windows on which the sign appeared were likewise the property of the same agency. Bureaucracy had come full circle!

One might be disposed to treat this instance as no more than a small, if blatant, illustration of the unsound exercise of governmental power today. Unfortunately it is much more than that. It is, in fact, a symbol of the self-propelling character of government, and its independent capacity for growth, once the public which elects that govern-

ment loses control over or interest in its cost and quality. And even this is not the end. For the attitude of "let George do it", when it is applied to government, eventually becomes "insist that George do it" and gives him too much leeway. At that point, effective control over the price of government disappears; elector and elected in effect join forces on the side of big government. Conservatism in budgeting becomes politically impossible. Expanding government, shrinking private enterprise, and inflation become a way of life.

These are not idle generalities. They are fully documented in history: (for example, see "The Road to Serfdom", by F. A. Hayek). Moreover, their progression from stage to stage is fully explainable as a series of propositions involving ordinary, readily recognizable human motives. And they are associated with a distinct pattern of economic development.

At the heart of these developments is the tax system. It is often said that "the power to tax is the power to destroy"; it might be added, in the light of current trends in public finance in America, that the power to tax is also the power to build. What is destroyed is the individual's role in national life; what is built is the role of government.

Broader Taxation Base

In the early 1900's, total tax receipts of Federal, state and local governments amounted to less than $1.5 billion, and total per capita taxes were about $18 annually. Today, tax collections of all American governments total about $100 billion, and per capita tax liability amounts to over $600 annually. In 1902, taxes amounted to roughly 5% of the nation's net national product (the output available for distribution, after replacing the capital consumed in production). Today, the comparable figure is about 27%.

Underneath this prodigious shift in the proportion of national production preempted through taxation has been an equally significant reproportioning among the levels of government itself. In the early 1900's, more than half of all taxation was levied and collected at the local government level, and only a little more than a third at the federal level (the remainder of about 10%-15% of the total was levied by states). Today, the federal government collects (and spends) over 70% of all tax receipts. Local governments have been reduced from more than half to about one-eighth of the total tax take. Even since 1929, state and local taxation has increased four times; but federal collections have risen about eighteen times!

This is not an incidental aspect of the growth of government. Over the past half-century, big government has also become centralized government. The final decisions on the allocation of fully 20% of national income have not only been taken away from the individual; they have been physically removed from his presence.

Similarily, the purposes for which tax receipts are collected and spent have broadened inexorably.

How Tax Burden Has Increased

	Early 1900's	Late 1920's	Now
Total Government Tax receipts	$1.3 bil.	$9.5 bil.	$100 bil.
Federal Tax receipts	$.5 bil.	$3 bil.	$75 bil.
Per Capita total taxes	$18.00	$80.00	$625.00
Share of Nat'l Output Taken N. Y. taxes	about 5%	10%	27%
Income & Profits taxes	none	$2 bil.	$60 bil.
Individual Income Tax rate, normal	none	1-5%	3%
Individual Income Tax rate, surtax	none	1-20%	17%-88%
Corporation Income Tax rate	none	12%	52%
Aid received by States from Fed. Govt.	$3 mil.	$150 mil.	$2800 mil.
State Tax collections	$150 mil.	$1700 mil.	$15,000 mil.
Local Govt. Tax collections	$800 mil.	$5700 mil.	$18,000 mil.
Federal debt	$1 bil.	$20 bil.	$275 bil.
State debt	$.2 bil.	$3 bil.	$13 bil.
Local Govt. debt	$2 bil.	$12 bil.	$35 bil.
Total Govt. debt, per capita	$40.00	$300.00	$2,000.00
Interest on Federal debt	about $15 mil.	$700 mil.	$7 bil.

As a government function is picked up, perhaps under entirely justifiable emergency conditions, it gradually builds its way into the government's fiscal and bureaucratic structure, and finally achieves an independent life altogether apart from the emergency under which the program arose. Emergency taxes, too, are notorious for their ability to stay on the ledger long after the emergency has dwindled and disappeared. Since 1900, expenditures of the federal government, excluding defense and interest on the public debt, have risen from about $300 million to about $25 billion; this is the reflection of the growing scope of general government programs. Similarly, in the early 1900's excise taxes and customs receipts comprised the bulk of federal revenues; today, the total receipts from these sources are exceeded by personal income taxes and by corporate income taxes, both of which were unknown in 1900. Employment and miscellaneous taxes (the former also unknown in 1900) together yield as much income as all taxes did fifty years ago, and as much as excises and customs yield today.

The detail of the growth of government income and expenditures, and its widening scope, could be elaborated ad infinitum. What is much more worth elaborating, however, is the effect of this swelling tide of government on the national economy as a whole, with particular reference to the vital incentives for growth and expansion which are the precious lifeblood of a free-enterprise system.

Effects of the Personal Tax

Individual income taxes now amount to about $38 billion annually. Another $11 billion is collected in excise taxes, which presumably are paid by the consumer even though their initial incidence may be as a business tax. Estate and gift taxes yield

another $1.2 billion. Employment taxes collected from individuals add another $3.7 billion. Altogether, the federal government now takes roughly $55 billion from individuals annually.

Significant as this total is, the form of collection is even more relevant to any discussion of the effects of such taxation. Under current law, the marginal tax rate on additional income runs from 20% (a 3% normal rate plus a 17% "surtax rate") to as high as 91%. At a net income level of $16,000 —a figure which is no longer suggestive of Rockefellers and Mellons, by any means — the tax rate reaches 50% on marginal income. At that point, the federal government becomes a full, equal partner in the individual's financial successes (as well as his reverses, of course). Beyond an income of $18,000, the federal government is in fact senior partner, in the sense that it takes more than half of additional earnings!

This level of personal taxation has five distinct effects on the personal sector, all of them clearly debilitating to persons themselves, and to the national economy for which they work.

In the first place, the violently progressive character of the tax obviously penalizes success, and operates to contract the rewards to those select few of every generation who represent the scientific, industrial and artistic creative pioneers. By so doing, the tax rates inhibit that very force of discovery on which the growth of the whole economy is ultimately dependent. At a lower level, they penalize those less creative but intensely industrious and capable managers of the industrial system who develop and administer the practical applications of new discoveries. In a word, the progressive tax structure attacks the basic economic incentive in its most vital areas.

Secondly, the higher levels of the progressive rate structure have their impact, in the main, on income that would ordinarily be withheld from consumption and reinvested. This is the transmutation of personal saving into investment which is one of the critical processes of free enterprise. The higher tax rates in effect capture seed money—the source of future growth. Without this seed money, even the best efforts of creative inventors would be unimplemented, and simply lie fallow.

Thirdly, while the higher tax rates capture funds that would be saved, the incentive to save, on the part of families in lower brackets, is progressively destroyed by the inflationary consequences of high government spending. As saving loses its attractiveness, consumption rises to take the full output of national product, and re-investment declines. Under the combined pressures of inflation and loss of working incentive, the national growth rate tapers downward, and living standards cease to rise.

Fourthly, the spread between income tax rates and capital gains tax rates exerts a subtle influence on the kind and direction of national business activity. The producer, who finds it increasingly difficult to amass wealth or even security by earning income, begins to direct his efforts toward capital gains. The small corporation sells out to the big corporation; property becomes more desirable than liquid assets because of the capital gains potential; and inflation applies a spurious validity to all of these tendencies by raising the value of all non-dollar assets. The cycle thus ascends, at an increasing rate, while real wealth stagnates. Finally, government, in order to attract saving, tends to grant tax immunity to income on its own securities. By so doing, it puts private securities at an immense competitive disadvantage, and the higher the tax rates the greater the disadvantage. Saving thus tends to be progressively socialized. This process is already far advanced in the United States: witness the very high corporate yields now required to compete with non-taxable yields on municipals. This is, of course, only one way in which savings become socialized; social security is another and substantial area of socialization of saving.

It should be clear that the combined tendency of these five interwoven aspects of personal taxation is to hinder and debilitate the growth of the private economy, at the same time that growth of government becomes self-propelling. This combined tendency is greatly abetted, however, by a direct attack on another major source of private growth; namely, corporate profits.

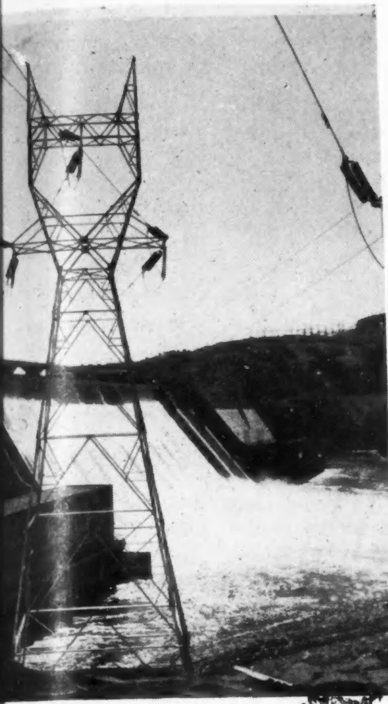
Impact of Corporate Taxes

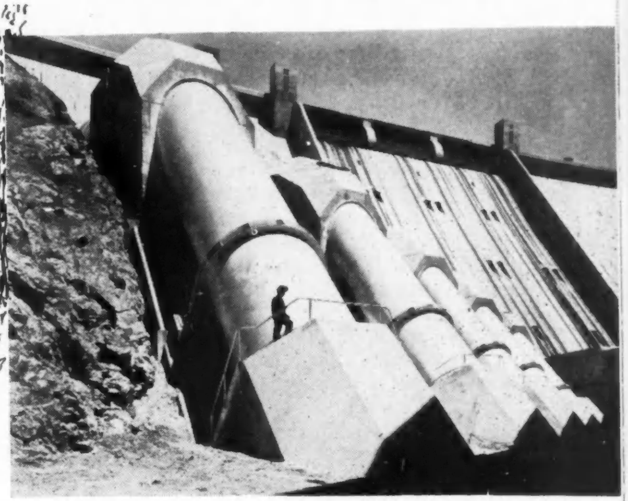
The Revenue Act of 1913 legislated a 1% tax on corporation profits. This was the first appearance of a corporate profits tax in the United States (and one of the earliest appearances anywhere in the world). It was argued bitterly, as a major departure from the rule of logic which prohibits double taxation. The double taxation argument is still going on, while corporate profits taxes are going on—and up. The rate now is, of course, 52%. Several years before World War II it ranged from 8% to 15% (depending upon a number of factors, but not scaled against income; thus far, the United States has avoided a progressive corporate tax, except in time of war).

Government a Senior Partner in Corporations

Thus, the federal government is now more than an equal partner in corporate business as well as in the personal affairs of middle and upper income families. More important than this intervention, however, is the fact that the hand of government falls on corporate profits which, like its personal counterpart, would be "saved" in the economic sense for reinvestment in new and more productive capital assets. This is a grave, perhaps almost disastrous, interference with the growth process of free enterprise. Moreover, it has special social effects which are only now becoming apparent. For while larger corporations can cope with the tax burden by borrowing or raising equity capital to finance their expansions, smaller companies, whose resources are more limited, find themselves squeezed to the wall. This squeeze, together with the aforementioned pressure to take capital gains rather than income, is literally forcing the sale of small companies to larger ones. In turn, this weakens competition, and, perhaps more seriously, deprives the talented, independent, progressive American businessman of an opportunity to enjoy that special environment of small-business ownership which was once considered to be the backbone of American enterprise, and a major thread of the American character. *(Please turn to page* 733)

Where Insufficient Water Power is Drying Up Industrial Expansion





By McLELLAN SMITH

President Eisenhower, by keying Congress and the Nation to a course of head-on action to meet the threat of shortage of water to turn the wheels of industry, has quickened the tempo in public and private agencies concerned with the problem.

The President's warning in his State of the Union Message was not a revelation. But it was needed to lift planning off the ground. The cost of keeping ahead of water needs will be enormous, yet it would be miniscule compared to the loss that would follow if the Nation stands still, or moves too slowly.

Actually, there is no physical shortage of water in the world today. Experts of the U. S. Geological Survey assert the basic water supply now is no less than it was eons ago. Today's problems are centered in "management" of water supplies and the water cycle which does not keep abreast of modern industrial demands.

Water Planning Highly Essential

In an article titled "Our Water Supply – Vital Economic Factor" (*Magazine of Wall Street,* Nov. 12, 1955) the water cycle was explained as follows: ". . . evaporation from rivers, lakes and oceans; condensation in the skies, and return to Earth in the form of rain. The rain replenishes the rivers, lakes and seas, while a certain amount slowly, and over years which may total up to centuries, seeps through the soil to underground reservoirs."

Of the two problems, distribution and the water cycle, the latter is the more serious. Man and his industry could migrate to areas of more plentiful water supplies, but the speed of the water cycle cannot be stepped-up to keep abreast of industry's ever-mounting thirst. Mass migration of industry, moreover, would be a vast physical undertaking—certainly not economically feasible.

We can't speed the water cycle, nor can we afford to slow the pace of industry to fit the cycle. What then, is the solution? The question is easily put, but the answer is difficult. Seeking the solution are numerous Federal, State and private agencies. None has come up with a complete answer. Their combined research, coupled with wholehearted cooperation by industry and the people, may bring about a solution, or solutions that will be applicable to different areas.

Obviousy, more water cannot be legislated into existence. But restrictive legislation to assure more adequate industrial water supplies may become necessary. Such legislation may be avoided through more careful study by industry of ways and means to conserve current water supplies. And such studies could well obviate expenditures of billions of dollars (with attendant tax burdens) for the construction of vast water reservoirs in the river valleys of the country. Further, there may be the tremendous cost of plants for distillation of sea water for use in our coastal cities.

Throughout the country, water is alternately abundant and scarce. General development—and conservation—of water resources involves the increasing of supplies available in periods of scarcity and delivery of the water to points of consumption. Increasing populations with resultant increasing water demands create water shortages. Technically, this type of shortage is known as "drought shortage." In many cases, however, it results from failure to develop new sources, or to take conservation steps.

Industrial water needs cannot be regarded as independent of non-industrial requirements. All water of an area is derived from the same basic sources; and many users compete for the same sources—a city needs water for the health of its populace. A portion of the water is essential for the industries of the city, that it may survive as an economic entity.

Use of water for domestic and industrial purposes is almost entirely non-consumptive, but too frequently its recovery and re-use are not practiced. And recovery and re-use could be a major factor in overcoming the difference between the tempo of the water cycle and industry's pace.

As long ago as 1952, the President's Materials Policy Commission estimated that the total water requirements of the Nation for 1957 will be 350,000 million gallons daily, of which 215,000 million gallons will be used by industry, 110,000 million gallons for irrigation, and 25,000 million gallons for municipal and rural water supplies. This sharply points up industry's water needs – 61% of the total!

Thus it becomes plain that industry, through continuing research and capital expenditure will be asked to seek ways and means to conserve, develop new production methods which will demand less, and give closer attention to recovery and re-use of water. These may seem to be unreasonable burdens, but as mentioned at the outset, they will be infinitesimal compared with future costs if not grappled with now!

The costs of water conservation will not fall only upon industry. They will be shared by the Federal Government, State and municipal agencies—but industry as a major tax payer will carry a terrific dollar burden if the situation becomes of sufficient danger to justify multi-billion dollar storage reservoirs in the river valleys of the country.

The Federal Government, through the Departments of Interior, Agriculture, Commerce and Defense (Army Engineer Corps) and the President's Water Resources Commission, has had the problem under study for more than a decade. Every major river valley in the country has been surveyed and re-surveyed. Coincidental with their studies, the States involved have co-operated. It is no exaggeration to say the proper authorities now know where every drop of water can be impounded for the use of industry, agriculture and the municipalities. The cost of these vast dams, however, is not yet reckoned. Estimates vary from $120 billion to $200 billion.

Just what proportion of these reservoirs may be necessary in the next 25 years is undetermined. Beyond question, some must be built. However, the number can be kept to a minimum, say experts of the U. S. Geological Survey, *provided* all concerned —farmer, business man, industrialist—awaken to to the danger of a situation which grows graver each year.

There will be treatment in this article only of industry's possible contributions to water conservation—how it can adjust itself to the slow tempo of the water cycle and at the same time maintain production adequate to the national economy.

The continued increase in industrial water use and the rising cost of supplying it for industry compel increasing re-use of industrial water, especially in cooling towers and for processing purposes. Water for cooling purposes must be condensed and re-used, while that used in processing must be sufficiently purified for re-use. Both operations require capital outlay for equipment and storage reservoirs for water recovered after processing. This capital outlay now, would, in the long run, be less costly than tax contributions to a vast system of Federal or State dams and reservoirs.

Industries Role in Water Conservation

One example of condensation and re-use of water which might well be cited comes from Kaiser Industries steel plant at Fontana, Calif. Production of a ton of steel requires use of 65,000 gallons of water, but Kaiser, through condensation and re-use of cooling water cuts the loss figure to 5,000 gallons, this amount represented in irrecoverable evaporation.

In another instance, a California industrial plant installed a sea-water distillation plant to supply fresh water at $600 an acre-foot. This, at the moment, is an inordinately high cost, but it is a forward step. Research and experimentation are certain to bring the cost down to an economically sound figure. It is cited only to point up that other industries on either coast might follow suit to their future advantage. Further, it is deserving of study by coastal municipalities, especially those experiencing recurring water shortages because of growing populations and increased industrial activity.

Great Lakes Basin Compact

Efficient development of water resources will require extensive planning by industry as well as local, state and Federal agencies. Such planning can be expedited through establishment of interstate or even international compacts such as the Great Lakes Basin Compact, proposed during the last session of Congress, and designed "to plan for the welfare and development of the Basin as a whole as well as for those portions of the Basin which may have problems of special concern."

Planning as contemplated by the Basin Compact is of unquestioned value to the pulp and paper industry with its water supply and waste-disposal problems. Other industries have similar interests and problems. Their participation in the advisory activities of this and other compact organizations offers industry an opportunity to broaden the overall concepts and to protect its own interests in any planning or regulatory activities that may be undertaken. Only through such participation, it appears, can industry hope to obtain the maximum benefits to stem from development of surface and underground water resources.

Industry's interest is that basin development plans be designed to satisfy requirements, now, and in the future. Plans made without industry's cooperation might be weighted in favor of agricultural and municipal needs. To be considered in basin planning will be a sort of "production line" flow of industrial water. This, according to one Federal water problems ex-

pert, is best explained in the following manner:

A plentiful source of water is the Great Lakes, from which water could be piped to industries located in Illinois, Indiana and Ohio. Located nearest the Lakes supplies would be the industries requiring water of relatively high purity; next in line would be industries requiring water of lesser purity, and on down the line. The industry having first access to the water would, after using it, "clean it up to some extent," after which it would be piped along to the next industrial operation—and along the line until perhaps the same water would be used as many as six times. There would be some losses which could be offset by drawing from supplies along the route.

Realistic Forward Planning

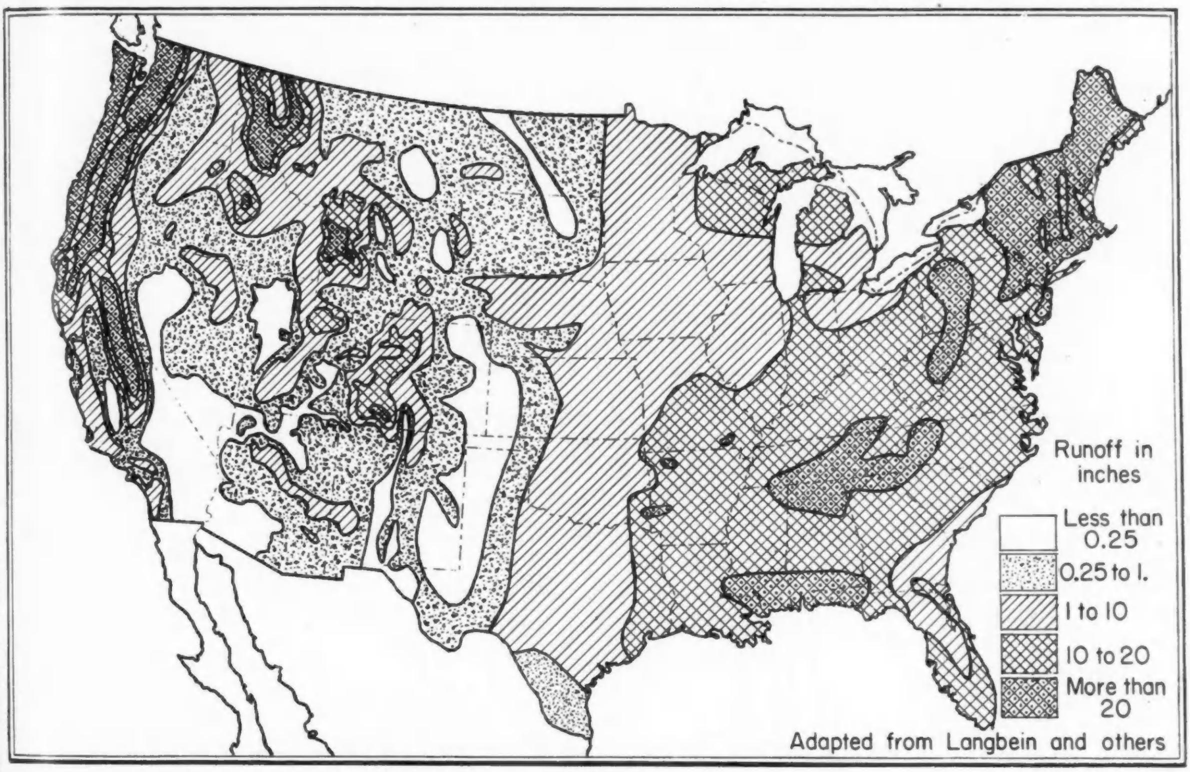
On cursory glance, the idea looks expensive—too expensive for practical application. At the outset it would be more costly than utilization of presently available supplies. However, in the areas south of the Great Lakes, water shortages are developing at an accelerated pace. By 1975, water supplies of the area may be inadequate to the industries rooted there nearly a century. It might then be necessary to uproot those industries and migrate to other areas, or simply permit them to die. The "production line" flow bears the earmark of the sensible course—a course to be considered even now.

Our principal artificial water reservoirs have been created mainly for irrigation and the generation of electricity—or a combination of the two. Some water has been available from these reservoirs for municipal supplies and industry. However, growth of power demands will make less and less of this water available for industry. In a short span of years, there will be two alternatives—costly additional reservoirs for industry, or new and radical methods of distribution as well as costly methods of recovery and re-use.

Areas of Water Scarcity and Abundance

The accompanying map, supplied by the U. S. Geological Survey may be properly used to give an idea of water supply conditions in various areas of the country. Those areas having a runoff of less than 0.25 inches are areas of inadequate supplies; those with from 0.25 to 1 inch have supplies adequate only to very light industry; those with 1" to 10" are areas where shortages for industrial purposes are developing, while the last two—10" to 20", and over 20"—may not experience shortages for the next quarter century.

For the past two years the Department of Interior, in cooperation with State and private agencies, has been exploring two methods of increasing the water supply—increased precipitation by cloud seeding, and conversion of saline water to fresh water. It is too early to reach conclusions with respect to cloud seeding, but the Department describes the conversion of saline water to fresh water as "promising."



Average annual runoff in the United States, 1921-45, in inches (adapted from Langbein and others, 1949).

Conversion of saline water to fresh water seems to be economically feasible only for a limited number of municipalities. Such conversion systems may enable some to retain industries which otherwise would pull out for areas of greater water supplies.

Saline water can meet many of industry's requirements, particularly for cooling. This will involve special equipment (*Please turn to page* 732)

CONTRASTS in CORPORATE DIVERSIFICATION

• OLIN MATHIESON CHEMICAL CORP.

• GENERAL TIRE & RUBBER CO.

By WARD GATES

Judging from the recent twelve month stock market high for General Tire & Rubber (72) and the recent low for Olin Mathieson (42), it would seem that General Tire has won the latest lap in the diversification race.

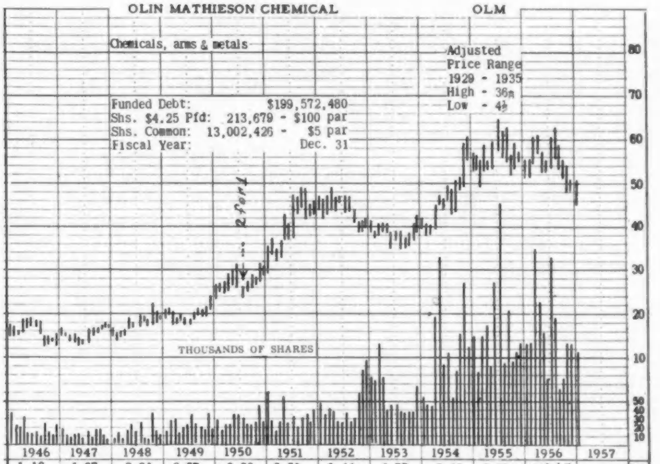
A comparison of the two companies reveals a surprising number of similarities. Sales growth was largely the result of acquisitions rather than internal expansion, for one thing. Another characteristic was the logic of making new acquisitions which tied in with existing products and management experience. Both companies are firmly entrenched in organic chemistry, although the end products are not necessarily alike. As one might expect, the classic form of the diversified company has been followed, whereby divisional management is semiautonomous and the master management directs overall policy.

In 1955, the most recent year when detailed figures were available (although the 1956 earnings have been announced), General Tire derived less than 40% of its sales from tires and tubes. About 23% of sales stemmed from rockets and aircraft specialties, about 13% from a variety of rubber and metal goods, and 4% from miscellaneous sources. Turning to Olin Mathieson, sales were fairly evenly divided between six major divisions. The Winchester-Western arms and explosives division accounted for 18.5%, Drugs anad Pharmaceuticals 17.2%, Plant Foods and Phosphates 18.3%, Industrial Chemicals 20.9%, Film, Paper and Forest Products 12.8%, and Metals 12.3%. In fiscal 1955, General Tire's sales were $296 million, and in calendar 1955, Olin Mathieson reported $561 million. (1956 earnings promise to be the same as last year, according to President Nichols.)

Need for Diversity

The reason for General Tire's decision to diversify stemmed from the unavoidable conclusion that other

larger manufacturers controlled the new tire market for automobiles and trucks. Thus, stability and progress could be achieved in building up a strong position abroad and in the domestic replacement market. General Tire occupies the fifth position in the tire industry, although actual volume is small compared with the majors. As to diversity of rubber products, however, General Tire has one of the most varied lines of all.



1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	
1.13	1.67	2.81	2.57	3.32	3.56	3.44	2.77	3.11	3.36	**3.45		EARN.
.62½	.81¼	.87½	1.06¼	1.50	1.70	2.00	2.00	*2.00	2.00	*2.00		DIV.
7.7	.4	5.2	16.5	17.4	30.1	77.1	83.1	174.7	193.6	-		Wkg Cap $ Mil

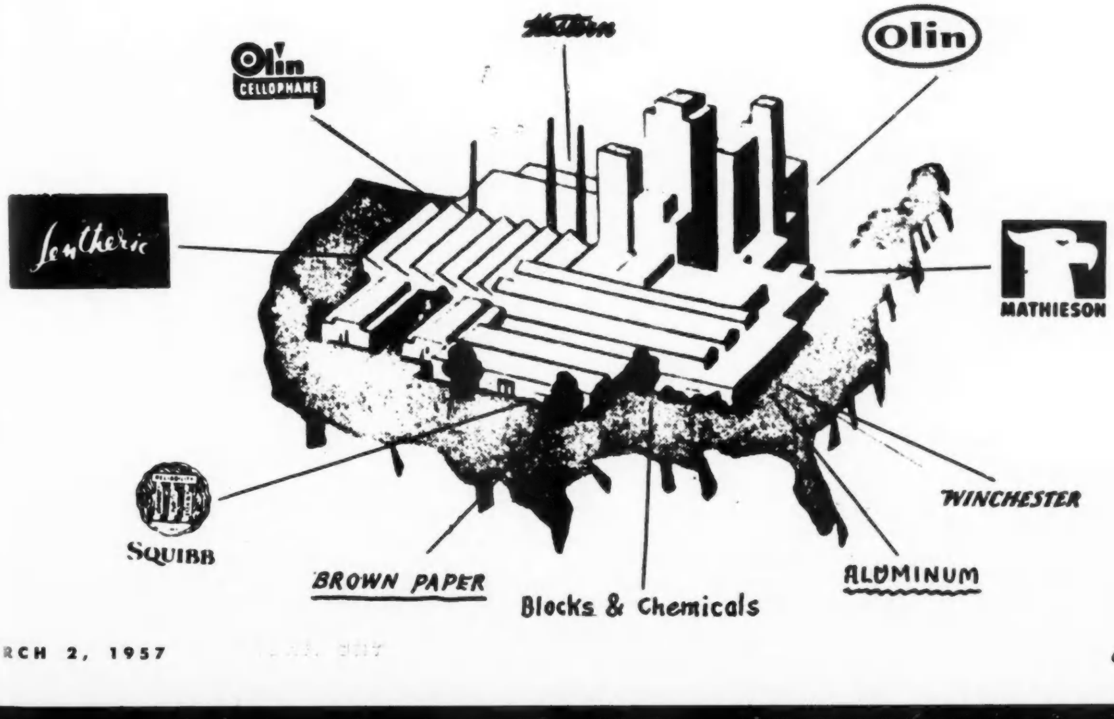
* Plus Stk Div
** EST.

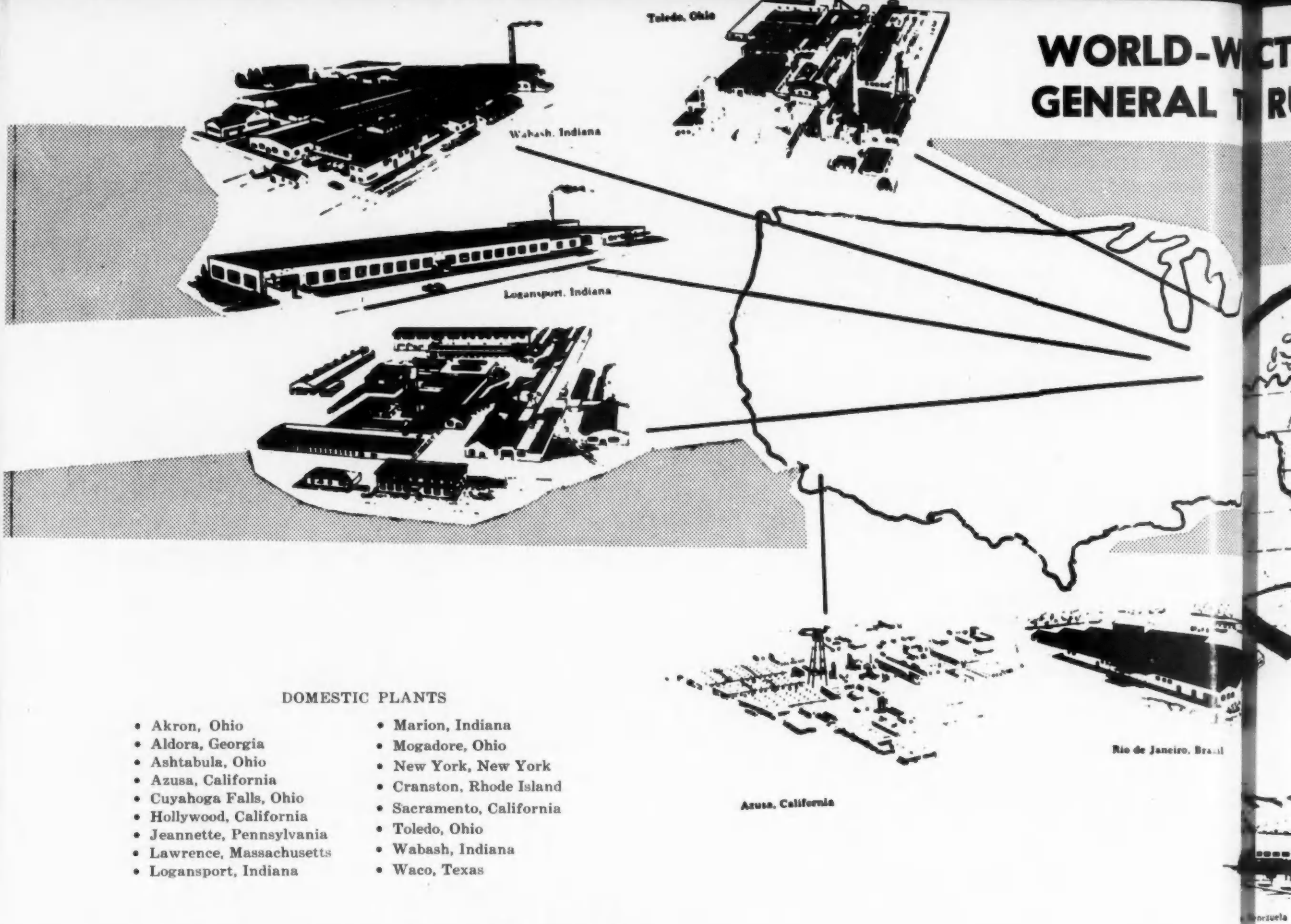
Enter the Jet Age

Like other rubber manufacturers, General Tire helped with the war effort in many ways, including the World War II operation of Government synthetic rubber factories. In an effort to improve quality, durability and manufacturing efficiency, General evolved a new mix for the synthetic rubber. Later called "Polygen," the rubber was formed from carbon black, liquid latex and petroleum. During the course of this research, General made the discovery that certain processes of rubber making were quite closely allied with processes for jet aircraft fuels, then on the threshold of development. Pursuing this opportunity, General acquired in 1945 an 81% interest in Aerojet Engineering Co., at that time a modest research organization. The unfolding years brought rapid forward steps, and by 1953, additional space was required. As fortune would have it, Crosley Motors was for sale, and the deal carried with it not only the needed floor space, but a valuable tax-loss carry-forward. One of the most famous of Aerojet's earlier accomplishments was the JATO, which we know as the jet-assisted take-off for airplanes. Power for guided missiles was a prime purpose, and such names as the Aerobee and Nike owe their creation in part to General's engineering. Sales of the Aerojet-General Corp., which is 95% controlled by General Tire, are in excess of $140 million, and new orders are fast growing. The subsidiary has contracts for solid and liquid jet fuels, small nuclear reactors, and "Project Vanguard," which is the man-made Satellite. There are 396,716 shares of Aerojet-General outstanding (185 bid over-the-counter), and earnings per share may exceed $2.50 per share in the not-too-distant future. Aerojet is the largest manufacturer to date in this dynamic field.

Plastics an Important Step

General Tire decided to utilize its organic chemistry knowhow in the burgeoning area of plastics. Its Bolta Products and Textileather Divisions make a host of plastic materials and finished products.





DOMESTIC PLANTS

- Akron, Ohio
- Aldora, Georgia
- Ashtabula, Ohio
- Azusa, California
- Cuyahoga Falls, Ohio
- Hollywood, California
- Jeannette, Pennsylvania
- Lawrence, Massachusetts
- Logansport, Indiana
- Marion, Indiana
- Mogadore, Ohio
- New York, New York
- Cranston, Rhode Island
- Sacramento, California
- Toledo, Ohio
- Wabash, Indiana
- Waco, Texas

Markets are wide, including the automobile industry (upholstery), sports, luggage, household articles and furniture. There was some degree of price cutting in vinyl plastics last year, and it is probable that a state of oversupply may continue for a while.

The Chemical Division supplies a number of basic plastic resins, a large portion of which are consumed right at home by General Tire. Such integration promotes a pleasing degree of cost advantage, and although many other producers have entered the field, General Tire should nevertheless be able to maintain its volume position.

Under consideration is the absorption of the A. M. Byers Co., a producer of wrought iron pipe and other steel goods. Byers sales were recently in the $25 million bracket, but net income results have been less than satisfactory. Thus far, General Tire has acquired about 75% of the common stock and 40% of the preferred. The company would probably be utilized as a distributor and sales agent for plastic pipe, a growing attribute of General Tire's plastics venture.

Entertainment for Diversion

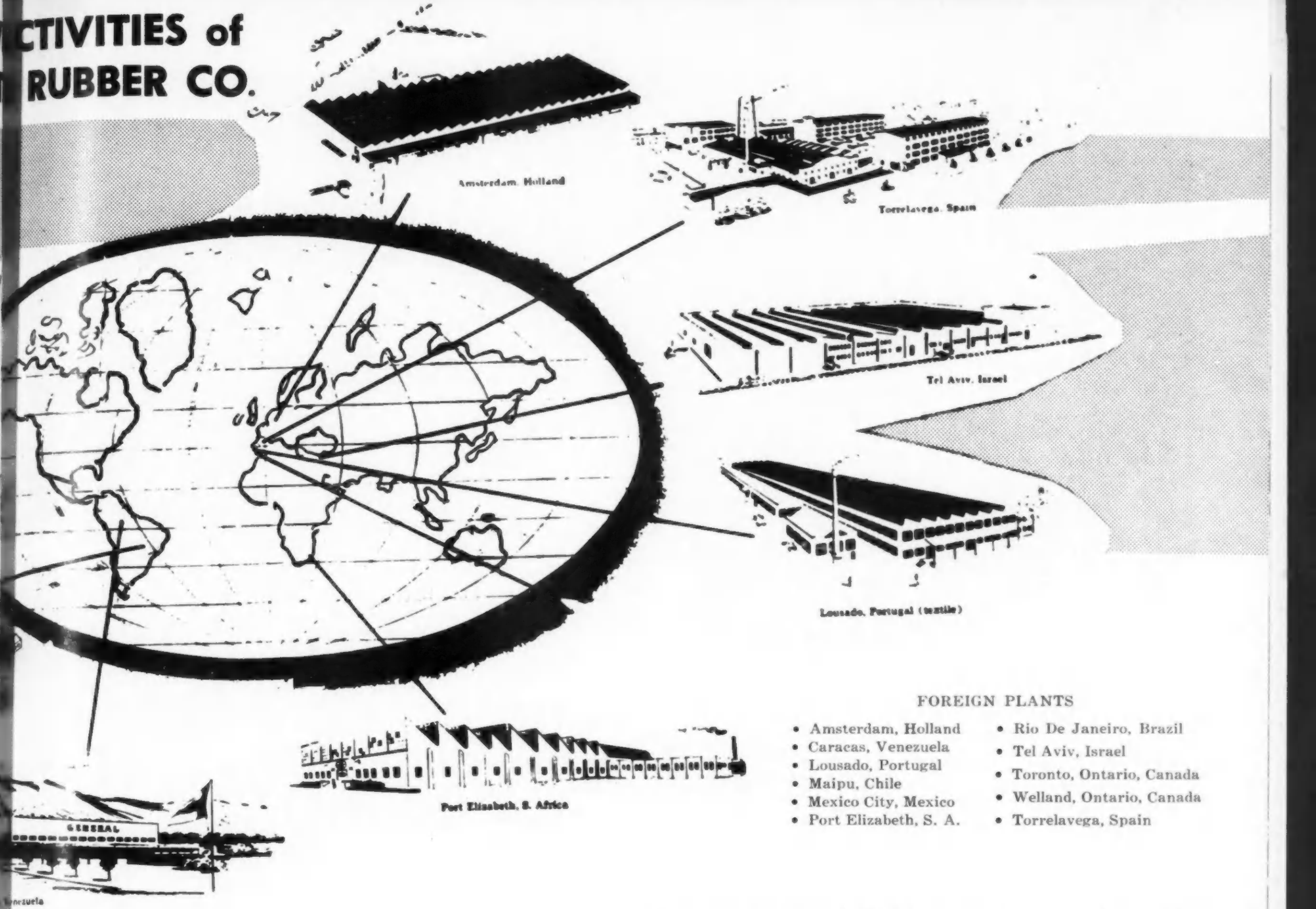
The entry of General Tire into motion pictures, radio and television has puzzled many students of the company. Perhaps the best explanation is that General Tire had an ample supply of cash on hand during 1942 and was offered an attractive bargain in the radio business. The purchase of the Yankee Network (24 stations) was followed by purchase of the Don Lee Network (60 stations on the West Coast) in 1951. The two were thereafter merged into Thomas E. Lee Enterprises. A year later, the stations WOR and WOR-TV were acquired, with R. H. Macy & Co. retaining a 10% interest in the new combination, which was called General Teleradio. The radio and TV stations, operating as the Mutual Broadcasting System, have nationwide coverage with 550 stations.

From radio and TV, it was a short step to the purchase of RKO-Radio Pictures for $25 million from Howard Hughes. The kernel of this acquisition was not only a completely integrated motion-picture producing entity, but also possessed a valuable library of films. Shortly thereafter, General Tire negotiated the sale of certain films, but retained the rights, at a full potential price of nearly $20 million. In 1956, RKO Teleradio Pictures, Inc., produced 11 films, costing $22.5 million. The company is carried on the asset account at $2 million, and the president recently reported the refusal of a $50 million offer for the subsidiary from an outside source.

Olin and Mathieson

The recent MAGAZINE OF WALL STREET article entitled "Moving Picture Industry at the Crossroads" by John Wingate sheds additional light on current developments in motion picture making, all of which should benefit General Tire.

-W CTIVITIES of AL T RUBBER CO.



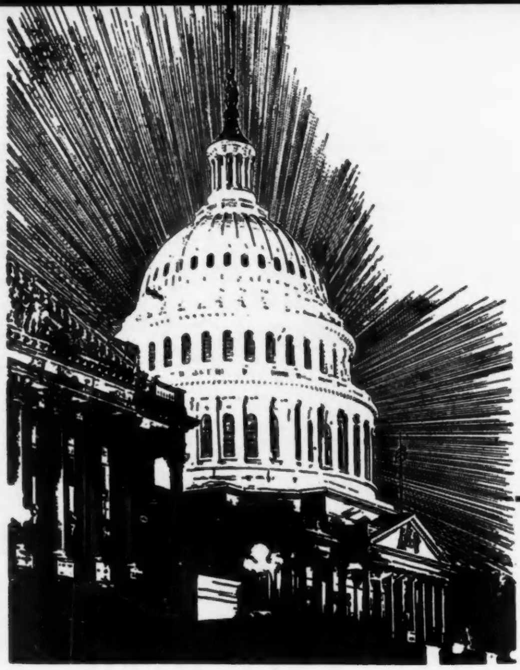
FOREIGN PLANTS

- Amsterdam, Holland
- Caracas, Venezuela
- Lousado, Portugal
- Maipu, Chile
- Mexico City, Mexico
- Port Elizabeth, S. A.
- Rio De Janeiro, Brazil
- Tel Aviv, Israel
- Toronto, Ontario, Canada
- Welland, Ontario, Canada
- Torrelavega, Spain

Olin Mathieson commenced its growth as two separate entities. One was Olin Industries, Inc., and the other was Mathieson Chemical Corp., formerly Mathieson Alkali Works. In the early days of Olin Industries, the chief product was black powder. To develop the market for explosives, Olin purchased the Winchester Repeating Arms Co. in 1931. Later on, it was found advantageous to diversify the ammunition-making division into general brass fabricating. After World War II, Olin continued its research on explosives and branched into the development of cellulose compounds. In 1949, a mutually advantageous arrangement was concluded with DuPont. With the aid of DuPont's cellophane patents, Olin bought the Ecusta Paper Co. in North Carolina and formally entered the cellophane industry. Since Ecusta previously made nothing but special products, such as cigarette paper, and since the subsidiary possessed sizeable timber reserves, Olin began to pay attention to the pulp and paper industry. In 1951, the Frost Lumber Industries was purchased, a move which was duplicated four years later by the combined Olin Mathieson Co. through the acquisition of the Brown Paper Mill in Louisiana. Thus, Olin progressed in a logical way from explosives to ammunition, arms, metal fabricating, cellophane and forest products.

The expansion of Mathieson stemmed from the desire to develop new products which would reach wider and more fruitful markets. Since products were sold to industrial and agricultural customers, Mathiesen advanced into ammonia, alum and various hydrocarbons. The E. R. Squibb & Sons drug and pharmaceutical house was merged in 1952, partly because Squibb had research facilities for organic chemicals and (*Please turn to page* 728)

	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957
EARN.	4.28	4.29	3.67	.47	6.94	5.59	4.82	4.91	3.18	6.29	6.90	
DIV.	.50	1.00	1.00	1.00	1.50	1.75	2.00	2.00	2.00	2.00	2.00	
Wkg Cap $ Mil	21.0	24.4	35.4	35.0	38.8	33.0	38.1	44.7	44.7	52.4	72.3	



Inside Washington

By "VERITAS"

INDUSTRIAL PRODUCTIVITY is standing still in a period of rising wages. The result is a contribution toward inflation which is as great, if not more damaging, than out-of-line pay and work-week. Ewan Clague, U.S. Commissioner of Labor Statistics has presented the eye-opening facts to Congress. Nonfarm productivity rose in 1954 and 1955, leveled off in 1956. Yet millions of workers will receive substantial paycheck boosts this year – deferred increases, escalator clauses, cost-of-living boosts and the like. In 1954 and 1955, productivity in industry was up 3 per cent. Some new plant now coming into use plus automation, may make changes.

WASHINGTON SEES:

Labor leaders are striving to hold together the dream of solid front unionism that had expression in the AFL-CIO merger of little more than one year ago. The combine faces internal frictions which threaten to bear out the forecast of wily John L. Lewis: "It'll never last!" The breast-beating, the oral broadsides against abuses and the solemn pledges to uproot them, which came out of the Florida conclave, seem in retrospect a cover for the turmoil which was raging.

The Congress of Industrial Organizations was created in 1935 by separating industrial unions from the craft unions which were the core and spirit of the American Federation of Labor. The two organizational concepts existed side-by-side for two decades. Then it was theorized that they could be united and the process began—from the top down, not from the bottom up.

After one year of unification, the two concepts met at Miami Beach and piled the table high with grievances. All of them stemmed from the effort to meld opposites: craft and industrial unions.

The result has been rivalry, for memberships and the economic and political strength that follows. There is still no solution in sight.

TIGHT MONEY is here, not indefinitely, but so long as William McChesney Martin wields the influence he has in the Federal Reserve Bank Board, close watch will be maintained to see whether the reins should be given another tug. Chairman Martin has said if he could live the past two years over, he'd be pressing for even tighter controls. That's an interesting statement in view of the fact that in the past two years the reins were pulled in six times. The FRB chairman is far from the darling of businessmen, who want freer money. But what threatening Congressmen can't do, the businessmen aren't likely to accomplish. As long as business is booming and demand for money remains high, we can be sure that the FRB will hold the reins tight. Softer business would, of course, bring quick reversal of this policy.

BUCK PASSING has moved to a very high plateau, even for Washington. The latest buck to be passed involves billions of tax money—the over-fat Budget which President Eisenhower sent to Congress when, it now appears, he had no intention that the lawmakers should adopt it. There's a heap of resentment on Capitol Hill and an odd combination of Democrats and Republicans have a strategem under consideration to pass the budget "as is" with instructions to the President's Budget Director to lop upwards of $5 billion by vetoing agency spending.

REASON behind Secretary Benson's reduction of support prices for eight farm commodities during 1957 became evident when the Commodity Credit Corporation announced its staggering losses—$2.9 billion in the past four years, compared to $1.1 in the 20 years which preceded. CCC lends farmers money on their crops; if market prices are below the loan rates, government takes the crops, sells at a loss. Complicating fact is that the terrific losses were sustained under a system of flexible rather than rigid supports.

As We Go To Press

▶ The Eisenhower-Saud communique in review compressed into few words the top product of several days of top level conference on the Near East. Naturally only the major point of agreement was stated: another five years occupancy of the air base at Dhahran has been assured the U.S. Air Force, and Saud's country will receive modern military material in payment thereof. Such a combined real estate transaction and commodity sales contract could have been negotiated, closed, in an hour perhaps. The base is occupied now and, unlike the situation which arose in Iceland, there was no local clamor to send the Yanks home. When the King hit these shores every one who would be dealing with him knew he wanted arms.

▶ While there was nothing spectacular in the announced results, the inferences are momentous. Neither side made concessions it will have difficulty in fulfilling. No charges of bad faith or broken promises can come out of this one. A trend toward peace in the Near East has ben hastened. Importantly, this was accomplished without brinking war by treading upon the toes of anybody. No Nation has changed its posture to the detriment of any other Nation.

▶ Ike has purchased a five-year insurance policy on national security, insofar as hazards arising in the Arab area go. It hasn't been revealed how much, or what type of armor will be sent to Saudi Arabia. In language and in tone it was clear that defense, not aggression, is the purpose to be served. From Washington's standpoint, the major significance of the conference is Saud's acceptance of the Eisenhower Doctrine. It is quite clear now to the King and his followers, and he will carry the assurance to his Arab neighbors, that American policy is to stop the spread of communism, not to pose threat to the sovereignty of any state.

▶ It was interesting, and too important to be amusing, to note that King Saud had at his beck and call in the closing days of his visit, the Crown Prince of Iraq. At intervals he sent for the Iraqi statesman and it wasn't quite clear who was advising whom. Iraq has been far ahead of its neighbors in cold-shouldering Moscow. That country of 5 million inhabitants, territory about the size of California, and enormous and covetable natural resources, not only broke diplomatically with the Kremlin but also made it a criminal offense to be a communist within its borders. Economically, Saud can look down on the Crown Prince, but the looks were in the other direction on the issues of communism.

▶ Shadows lurked as Ike and the Arab Chiefs went about their tasks and completed them. There was strong basis for the belief that American interests had been additionally safeguarded and that the Arab countries now had more reason to breathe easily than in the past. But in the very firming of these assurances, it appeared, was a threat to Israel. None of the announced results took into consideration the problems—even the survival—of the little country, created with such promise and enthusiasm and now seeming to be facing abandonment by its powerful friends.

▶ It is difficult to read the Eisenhower-Saud manifesto without sensing overtones of warning to Israel. The signers of this document appear to be saying that they will stand with the United Nations against any aggressor in the Near East. There is nothing to make clear whether Israel is regarded the aggressor or the aggressed in current disputes. That being so, the President's ex cathedra assurances that Israelis would pull out of the strips could have been in unfortunate juxtaposition.

▶ President Eisenhower's coat-tails may serve a vehicular purpose for the last time, April 2. That's the day set for a special Texas election. Upon the result could rest the chance of the

republicans to take charge of the Senate. The White House has given its blessing to Thad Hutcheson of Houston, lone republican in a field of candidates heavy with democrats. Odds, say republicans, favor Hutcheson; their expectation is that the demmies will split the vote to the point that none will respectably challenge the GOP entry. But what if Hutcheson should fail?

▶ The political value of the Eisenhower coattails underwent re-examination following the November election. A glance at the outcome of the Presidential race is enough to establish Mr. Eisenhower's draw—for himself. But it didn't overturn democratic control of Congress; in fact some GOP stalwarts went down to surprising losses. Even retiring Chairman Leonard W. Hall joined the dissenters to say: "The 1956 election disproved the coattail theory and congressional candidates who relied on the President's vast popularity to carry them to victory found out it doesn't work out that way." Hutcheson, by the way, is the first candidate to run with the badge of Eisenhower Modern Republicanism.

▶ Commerce Secretary Weeks was guilty of a misstatement of fact when he told a press conference "there are no studies being made" of wage and price controls. A telephone call to the Office of Defense Mobilization would have advised him that control regulations—standby and for-the-duration of emergency—are the subject of a continuing study and have been since the close of World War 2. The Cabinet member was on sounder grounds when he said: "We got rid of controls when this Administration came in. The Administration is against controls."

▶ Secretary Weeks statement was in flat contradiction of what newsmen had heard elsewhere, topped by President Eisenhower's assertion that continued inflation must bring on controls. Ike's warning had been widely publicized before Weeks spoke. The incident recalled Treasury Secretary Humphrey's "hair-curling depression" comments, which took sharp issue with Ike's assurances that the things that cause depressions no longer exist in this country -- hair-curling depressions in any event. A problem that plagued the Eisenhower Administration midway through its first term, is setting in again: Too many spokemen are sounding off without clearing "policy."

▶ If a "Pearl Harbor" were to happen today anywhere in the world and United States involvement seemed certain, controls could be in effect in 24 hours. The first strictures would involve sale and/or use of scarce metals. Wage and price ceilings, manpower utilization, would be but days away. It has been estimated by ODM that in 30 to 90 days the temporary "freezes" could be adjusted to existing needs. Stop-gap steps would be necessary until the nature of the emergency could be assayed: armed intervention, or, merely aid; air, sea, land, or nuclear warfare; defensively or offensively; the size and strength of the foe. It's all in ODM files and on its planning boards. Today.

▶ President Eisenhower and Secretary Weeks are closer together on what should be done immediately. Each has spoken out for a campaign of education; for impressing on both parties to labor-management contracts that there is danger of national disaster in demanding too much on the one hand, acquiescing too freely on the other. The record seems clear that every important commodity price rise in recent years came after, not preceded, wage boosts; that they were the effect, not the cause. But Labor is striking back through its friends. Senator Joseph C. O'Mahoney scoffed at voluntary action by management: "Any business, although it may be builded by men of the best good will, has its principal interest in profits. There are not going to be any voluntary reductions in those profits."

▶ Perhaps the best assurance that President Eisenhower is discussing what could be done rather than what he plans to do, is found in the fact that he has consistently blocked Congressional moves to create standby controls. Each year since he has been in the White House it has been proposed to revise the Defense Production Act by writing into it the machinery of ceilings and allocations. But the President already has constitutional power to act, as well as residuary legislation from war days.

IRON ORE AT CERRO BOLIVAR

HIGHWAY BETWEEN LA GUAIRA & CARACAS

NEW PROJECT IN CARACAS

CARACAS – SEA OF "BLACK GOLD"

MODERN HOUSING IN CARACAS

DYNAMIC VENEZUELA

By V. L. HOROTH

"Latin American Klondike" once seemed a fitting description of Venezuela's booming conditions –but it has proved to be a gross understatement. The old Klondike's rush was over in a few years; in Venezuela, the boom has now lasted with almost no interruption for more than ten years. Nor is there an end in sight. Rather it seems that a new and a bigger "rush" is in the making in the development of Venezuela's fabulous natural resources: petroleum, gas, iron ore, and bauxite, spurred by the Suez crisis.

Nor could old Dawson City on the Yukon ever hold a candle to Caracas, Venezuela's capital. From a sleepy, colonial town, dramatically set among the Andean crags, Caracas has transformed itself into a bustling metropolis, quadrupling its population to 1,100,000 in less than a generation. But, like the rest of Venezuela, Caracas remains a place of sharp contrasts. In the midst of quiet, narrow streets of Bolivar's day are rising ultra-modern steel and glass giants that in boldness of conception vie with the skyscrapers of Rockefeller Center in New York.

Meanwhile, money, say those who have been to Caracas recently, is flowing more freely than ever. Cartier and Christian Dior now have establishments in Caracas. The lowest paid laborers in the oil fields make close to $20 a day, seven days a week, if various subsistence benefits such as housing, medical

Some Typical American Enterprises Operating in Venezuela

MANUFACTURING:	OTHERS:
Firestone Rubber	Sears-Roebuck
Goodyear Rubber	First National City Bank
Goodrich Rubber	Intercontinental Hotels
U. S. Rubber	Bethlehem Steel (iron ore mining)
Sherman-Williams Paints	U. S. Steel (iron ore mining)
General Motors (assembly)	Coca-Cola
Chrysler Corp. (assembly)	
American Can Co.	
Colgate-Palmolive	
Procter & Gamble	

Venezuelan Oil Concessions by Companies

	Old Concessions		New Concessions	
	Total Acreage (000 acres)	Proved Area (000 acres)	Acreage (000 acres)	Cost (million)
Total	14,508	805	988	$408
Creole Petrol. Co.[a]	2,771	283	125	25
Mene Grande Oil[b]	2,420	164	225	127
Shell of Venezuela	2,265	188	158	64
Socony Mobil Oil	1,840	40		
Sinclair Oil	1,188	9		
Petrol. Los Mercedes	756	16		
Venez. Atlantic Oil	723	11		
Richmond Expl.	544	38		
Texas Petrol.	526	16		
Superior	......		32	21
Sun Group	......		50	18
Signal Group	......		100	33
Star	......		100	38
Venezuelan Leaseholds	......		27	4
Venezuelan American	......		125	21

[a]—95% owned by Standard Oil of N. J.

[b]—Mene Grande Oil is a joint venture: ½ Gulf Oil, ¼ Shell Oil and ¼ Standard Oil of N. J.

care, schooling and transportation are included. In Caracas a reasonably good typist gets around $600 a month. On the other hand, a meal that in New York would cost no more than $1.50 would cost nearly $5 in Caracas. Conditions are quite different outside the capital city and the oil fields. Most of the farmers eke out a near-subsistence living by tilling —still largely with oxen and burros—the steeply-sloping Andean mountainsides. The only innovations in many areas are good Government-built schools and hospitals.

What is there for the American investor and businessman in this strange, booming country of sharp contrasts and incongruities?

Venezuela's dynamic growth and economic progress during the postwar decade are undisputable. Moreover, this growth will continue. Venezuela's population is among the fastest expanding in the world, increasing at the rate of about 240,000 or 3.7 per cent yearly, thanks partly to immigration, now averaging 40,0000 annually. In 1950, the population was around 5 million; this year it is expected to attain 6.2 million, and by 1965 it may reach the 10 million level. The Venezuelan market is growing even faster. National income has trebled in the last ten years; on a per capita basis it rose from the equivalent of $340 in '47 to around $850 in '56. This compares with a per capita national income of about $250 for the rest of Latin America. As to imports, they have risen in the last ten years from the equivalent of $295 million in '46 to over one billion dollars in '56.

Venezuelan costs and wages are extremely high, and, with the exception of petroleum, minerals and posibly coffee, the country's products have practically no market on the outside. This leaves Venezuelan agriculture and industry not only dependent on a rather narrow domestic market, but also open to sharp competition with the cheaper foreign products. There were signs of industrial over-expansion and credit inflation in the last couple of years, but temporarily at least, all clouds have been dispersed by prospects of unprecedented expansion of petroleum operations.

New Oil Concessions

Venezuela's economic progress, as everybody knows, has been closely tied in with the development of her petroleum wealth. Although her leaders are as ardent nationalists as those of any other Latin American country, they have recognized that there is need of foreign capital and know-how for the development of the country's natural assets. They also struck a good bargain that guarantees them a 50-50 division of oil earnings. What oil has come to mean to Venezuelan prosperity may be revealed by the following figures: in '55 petroleum made up almost 45 per cent of the country's $1.9 billion in exports. It accounted for 40 per cent of Venezuela's gross national product, and for one sixth of all salaries and wages paid. Moreover, petroleum companies alone paid to the Government over $500 million in royalties and various taxes. (See the table on the contribution of American companies to Venezuela's economy.)

Altogether almost $3 billion of American, British and Dutch capital has been poured into the development of Venezuelan oil in the last 40 years. Oil is found in three major basins, of which the most prolific, and probably also the richest because of its unusually thick oil-bearing strata, is the "Mara-

Contribution of leading U. S. Companies' to Venezuela's Economy in 1955

1) Sales and purchases of U. S. companies	
Local sales	$ 274,000,000
Exports to U. S.	592,000,000
Other dollar exports	442,000,000
Total sales	$1,307,000,000
Local purchases of materials, equipment	$ 257,000,000
2) Number of employees of U. S. companies	41,000
Salaries and wages paid out	$ 246,000,000
Wages per employee	$6,000
3) Venezuelan Government Revenues derived from U. S. Companies	
Income taxes	$ 386,000,000
Sales taxes	31,000,000
Other taxes	30,000,000
Royalties	14,000,000
Other unspecified revenues	54,000,000
Grand total	$ 515,000,000
4) Plant and Equipment expenditures	$ 185,000,000
Exploration & development spending charged to income	52,000,000
Dividends and profits remitted	380,000,000

caibo-Falcon" basin. This area was recently made accessible to ocean-going shipping by a canal dredged across a sand bar at the entrance to Lake Maracaibo. The oil output, which in 1946 averaged less than 1.1 million bbls. a day, was expanded to 2.2 million bbls. a day in the closing months of '55. However, under the influence of the Suez crisis, the production was stepped up to over 2.7 million bbls. a day in January 1957, an increase of 22 per cent in one year. Venezuela is today the largest exporter of oil in the world, and is second only to the United States as an oil producer. As for production costs, Venezuelan oil ranks somewhere between the low-cost Middle Eastern oils and the high-cost American oil. In view of the unpredictable situation in the Middle East, the importance of Venezuelan oil for the security of the Free World has been tremendously enhanced.

Last year, even before the Suez crisis brought home the necessity of developing a dependable Western Hemisphere oil supply, the Venezuelan Government granted new concessions on almost one million acres of land against the payment of $408 million, most of which it has already collected. These concessions are expected to lift oil production to about 3.5 million bbls. a day by 1956, and also to add considerably to Venezuela's proved oil reserves, now estimated at 12.4 billion bbls.

As will be seen from the accompanying table, just over one-half of the new acreage under concessions was taken by the companies already operating in Venezuela. One of the largest bidders was the Mene Grande Oil Co., in which is interested the Gulf Oil Corp., hitherto heavily dependent on the Kuwait Oil Company for overseas crude supplies. Among the newcomers were the Superior Oil Co., the Signal Oil and Gas Co., the Star Oil Co., Venezuelan Leaseholds (combination of Standard of Ohio, Pure Oil, and others) and the Venezuelan-American Independent Oil Producers Assoc., headed by William Saxe of New York. Over the next few years Venezuela plans to add another 5 to 7 million acres to the 14.5 million now in leaseholds. At that, this takes only about a quarter of the area considered by the geologists as possibly oil-bearing territory. Now a second group of concessions are to be awarded. Among the companies that have filed applications are several from Spain, Germany, and France.

Iron Ore and other Resources

American companies are also taking a second look at other Venezuelan resources, among which the most important is iron ore, output of which was built up in the 1951-56 period to around 11 million tons. Last year iron ore exports (see table) were valued at over $60 million, more than twice as much as coffee exports, the next largest.

Venezuela's iron ore deposits are not only extensive, but have extremely high iron content (over 60 per cent) and, being near the surface, are easily workable. The two companies exploiting them, Bethlehem Steel and U. S. Steel, have invested in them nearly $300 million, building 125 miles of railway and three ports. They also dredged the Orinoco River to enable ocean-going ships to come to ore-loading ports. Both American and European steel interests are reported to be considering the development of some of the recent rich finds.

Eastern Venezuela is reported to have some fantastically rich bauxite deposits which the M. A. Hanna Co., the Kaiser Aluminum, and the Reynolds Metals Co. are investigating, according to the Caracas press. On its part, the Venezuelan Government is toying with the idea of bringing bauxite to the site of the proposed Caroni Falls Hydroelectric power project, which is to be the center of an industrial area.

Other commercial-scale mining in Venezuela is confined to diamonds, gold, coal, asbestos, salt, and manganese, shipments of which were made to Germany last year. Known minerals deposits include uranium—said to be the largest deposit in Latin America—thorium, phosphates, nickel, lead, copper, sulphur, magnesite, quicksilver, chrome, and antimony.

"Sowing the Petroleum"

Ever since the large-scale exploitation of petroleum began in the twenties, all Venezuelan Governments have been preparing for the day when this national asset becomes exhausted. Fortunately that day does not seem to be any nearer than in the twenties. Nevertheless, Venezuelan Governments have been "sowing the petroleum", spending the money obtained from petroleum taxes and royalties in developing other natural resources, helping agriculture, pushing public works, and more and more in public health and education. Public school enrollment has nearly trebled in the last 15 years, and Venezuela has now some fine institutions of learning. If Dean Ackerman of Columbia University is to be believed, education is, in fact, "the most dynamic aspect of Venezuelan life today."

Not all petroleum (*Please turn to page* 722)

Venezuela: Ten Years of Growth

	1946	1950	1954	1955	1956
Population (000,000)	4.39	5.03	5.60	6.00	6.18
Caracas, metropol. area (000)		695	946		1,103
National income: (billion bolivares)	5.0[a]	7.1	11.0	15.8[e]	17.5[e]
Per capita income in dollars:	340	420	590	800[e]	850[e]
Petroleum, proved reserves: (billion bbls.)		8.72	10.91	12.43	
Petroleum production: (000 bbls. per day)	1,064	1,498	1,895	2,157	2,760[b]
Iron ore output: (000,000 tons)		.2	5.4	8.00	11.0[e]
Industrial output: (1950 = 100)		100	167	187	
Textile production: (1950 = 100)		100	204	227	
Sugar output: (000 tons)	27	50	94	144	160[e]
Rubber manufactures: (000 tires)	41	100	372	417	510[e]
Cement output: (000 tons)	128	501	1,213	1,234	
Foreign trade: (million dollars)					
Exports:	483	1,162	1,690	1,921	2,100[e]
Imports:	295	600	926	980	1,050[e]
Gold and dollars (million dollars)	460	470	610	680	956[d]
Money supply (billion bolivares)	1.00	1.58	2.17	2.41	2.45[c]
Cost of living (1953 = 100)	87	93	100	99	101[d]
Budgetary expenditures (000,000 boliv.)	952	1,922	2,592	2,987	3,052
U. S. direct investments (000,000 dollars)	373[f]	993	1,291	1,424	1,900[e]
Earnings (000,000 dollars)		232	346	452	
Reinvest. & capital inflow (000,000 dollars)			75	58	

a—1947; b—first week in Jan. 1957; c—Oct. 1956; d—Nov. 1956; e—estimate; f—1943.

Realistic New Appraisal of Food Processors and Merchandisers

By J. C. CLIFFORD

Competition for the consumer's food dollar is becoming more intense than ever. For years farmers have complained that their share of disposable income has been diminishing at a disheartening rate. Food processors and distributors have argued that their margins have been approaching an irreducible minimum.

Figures disclosed by several nationally known concerns support the contention that a steady deterioration has been taking place in profit margins, while Department of Agriculture surveys confirm the fact that the farmer's percentage of national income has been declining since 1945.

Reasons for the mounting pressure on margins are not difficult to find. The fact that processors and distributors have been able to combat rising costs and to maintain reasonable returns on capital invested in enterprises attests to the ingenuity of research experts and marketing analysts who have fostered the steady enlargement of consumer demand. Progress in adoption of automatic processing equipment as well as in modern packaging techniques has enabled processors to hold down manufacturing expense and to stimulate sales through "convenience" appeal.

Vigorous expansion of shopping centers and supermarkets in suburban areas has contributed to more effective control over distribution costs. While this trend has posed a severe test for small independent merchants by tending to concentrate distribution of food (and a growing volume of non-food household essentials) in huge self-service markets, it has come to be recognized as an indication of changing competitive conditions. Sales on the order of several hundred thousands of dollars a week can be handled by a staff of warehousemen, checkout cashiers, etc., on a relatively low labor-cost ratio. So successful has this development proved in new suburban communities that some self-service markets have become extremely profitable.

Vital Statistics On Retailers and Processors

Food Retailers

	1955 Net Sales (Mil.)	1955 Net Profit Margin	1955 Net Earnings Per Share	1955 Div. Per Share	1956 Net Sales (Mil.)	1956 Net Profit Margin	1956 Net Earnings Per Share	1956 Div. Per Share	Recent Price	Price Range 1956-1957	Ratings
American Stores	$ 624.7	1.3%	$5.49	$2.00[6]	$ 378.6[1]	1.1%	$2.62[1]	$2.00[6]	46	59¼- 46	B1
First National Stores	491.6	1.6	4.93	2.40	na	na	2.46	2.40	48	61 - 47	A1
Food Fair Stores	475.1	1.8	2.68	.90[6]	279.3[2]	1.6[2]	1.42[2]	1.00[6]	36	62 - 35¾	B2
Grand Union Co.	283.0	1.2	1.90	.55	276.4[3]	1.2[3]	1.69[3]	.60[6]	26	36½- 25½	B1
Great Atlantic & Pac.	4,304.9	.8	16.09	7.00	na	na	na	7.00	151	189 -150	A1
Jewel Tea Co.	300.3	1.5	3.49	2.00	334.7	1.7	4.16	2.00	49	55 - 44¾	A1
Kroger Co.	1,219.4	1.1	3.88	2.00	1,122.4[4]	1.1[4]	3.56[4]	2.00[6]	47	54½- 43⅜	A1
National Tea Co.	575.5	1.2	3.41	1.60	468.3[4]	1.0[4]	2.27[4]	2.40	37	48 - 36	B3
Safeway Stores	1,932.2	.7	3.24	2.40	1,990.0	1.2	6.42	2.40	60	71⅝- 50⅝	B1
Winn-Dixie Stores	421.3	2.4	1.68	.66	265.9[5]	2.0[5]	.86[5]	.78	19	25¾- 18⅞	B1

na—Not available.
[1]—6 months ended 9-30-56.
[2]—28 weeks ended 11-10-56.
[3]—9 months ended 12-1-56.
[4]—40 weeks ended 10-6-56.
[5]—28 weeks ended 1-12-57.
[6]—Plus stock.

RATINGS:
A—Best Grade.
B—Good Grade.
C—Speculative.
D—Unattractive.
1—Improved earning trend.
2—Sustained earning trend.
3—Lower earning trend.

Food and Food Processors

	1955 Net Sales (Mil.)	1955 Net Profit Margin	1955 Net Earnings Per Share	1955 Div. Per Share	1956 Net Sales (Mil.)	1956 Net Profit Margin	1956 Net Earnings Per Share	1956 Div. Per Share	Recent Price	Price Range 1956-1957	Ratings
Allied Mills	$ 93.3	3.0%	$3.60	$2.25	na	na	$ .43[1]	$2.00	29	36⅛- 28½	B3
Beatrice Foods	325.0	1.9	4.51	2.45	$ 259.6[2]	1.6%[2]	2.91[2]	2.45	48	56¾- 45	B1
Beech-Nut Life Savers	91.0[3]	4.3	2.45[3]	1.20[3]	na	na	1.66[4]	1.50	27	32½- 26½	A1
Best Foods	115.3	5.8	4.53	3.00	na	na	1.77	3.00	44	53¾- 43⅛	B2
Borden & Co.	810.1	2.6	4.61	2.80	647.2[2]	2.6[2]	3.59[2]	2.80	52	64 - 51¾	A1
California Packing	249.2	3.9	5.15	1.65[6]	126.9[5]	4.6[5]	2.62[5]	2.00[6]	39	51⅞- 38¼	B1
Campbell Soup	429.8	6.8	2.74	1.50	na	na	na	1.50	35	43⅝- 34¼	A2
Corn Products	290.1	7.0	2.29	1.33	226.5	5.3	1.33	1.50	28	32⅜- 27½	A1
Foremost Dairies	389.3	2.1	1.21	.75	285.4	2.7	1.06	1.00	16	21⅛- 16	B1
General Foods	931.1	4.1	3.31	1.55	703.5[2]	4.3[2]	2.68[2]	1.77	40	50⅝- 40	A1
General Mills	516.0	2.7	5.68	2.75	259.5[5]	1.9[5]	1.97[5]	3.00	64	71¾- 61	A2
Gerber Products	99.6	6.0	2.84	1.10	78.0[2]	7.3[2]	2.73[2]	1.35	47	52¼- 45¼	B1
Heinz (H. J.)	262.4	4.0	6.09	1.80	139.7[5]	4.0[5]	3.20[5]	1.80	48	60 - 47	A1
Libby, McNeill & Libby	292.5	2.7	1.35	.75	148.2[5]	1.0[5]	.35[5]	1.00	12	18¼- 11¾	B3
National Biscuit	389.6	4.8	2.59	2.00	410.4	4.9	2.90	2.00	36	39½- 34⅝	A1
National Dairy Prod.	1,260.2	3.2	2.98	1.60	1,005.1[2]	3.7[2]	2.24[2]	1.75	37	42⅝- 34⅝	A1
Penick & Ford	52.4	7.6	5.41	3.00	na	na	3.44[2]	3.00	50	56½- 46½	A1
Pillsbury Mills	330.9	1.3	5.37	2.12	165.6[5]	1.3[5]	2.25[5]	2.50	41	59¼- 40¼	A3
Quaker Oats	277.2	4.2	3.13	1.45	na	na	na	1.65	34	35½- 31	A1
Standard Brands	400.6	2.6	3.01	2.15	352.6	2.5	2.57	2.25	38	44⅛- 36¾	A1
Stokely-Van Camp.	159.5	2.8	2.29	1.00[6]	75.5[5]	2.9[5]	1.29[5]	1.00[6]	18	22¾- 17⅝	B1
Sunshine Biscuit	119.1	5.1	5.96	4.00	na	na	4.53[2]	4.00	67	78 - 66	A1
United Fruit	75.2	4.4	3.82	3.00	na	na	2.00[5]	3.00	45	55 - 43⅜	B3
Wesson Oil & Snowdrift	165.3	2.4	2.77	1.40	46.3[7]	1.8[7]	.59[7]	1.40	31	43½- 30¼	B2

na—Not available.
[1]—Quarter ended 9-30-56.
[2]—9 months.
[3]Beech-Nut Packing only.
[4]—9 months; after merger.
[5]—6 months.
[6]—Plus stock.
[7]—Quarter ended 12-1-56.
NOTE: Hunt Foods merged with Ohio Match Co. 8-15-56.

RATINGS:
A—Best Grade.
B—Good Grade.
C—Speculative.
D—Unattractive.
1—Improved earning trend.
2—Sustained earning trend.
3—Lower earning trend.

Keen competition through processing channels and in marketing operations has made possible better values for consumers and has relieved pressure on the farmer to some extent, since resistance to higher living costs would have been greater had not efficient distribution methods been put into effect. The contest for the consumer's food dollar has become so aggressive in the last year, however, that it seems doubtful whether further economies can be expected to sustain earnings. Results of the struggle may be seen in consolidations in the processing field as well as in distribution facilities. To gain a better perspective of these developments it may be well to examine current trends in various phases of food processing and distribution.

Convenience Packaging Improves Profits

Progress in giving the consumer a more attractive product has been more pronounced among processors of semi-cooked foods and specialties, including baked goods, than among canners of vegetables and fruits. Many companies have gone far toward introducing attractively prepared products in "built-in" convenience packages. Concerns which have pioneered this field have obtained relatively more satisfactory margins by reason of the fact that costs of actual food dispensed in this manner represents a smaller proportion of the selling price than in the case of canned vegetables. Moreover, processors of such food items have been able to build up stronger brand loyalties.

It is interesting to observe that competition in prepared foods and in frozen products has increased in the last year or so, suggesting that others have been attracted by the promise of wider margins through introduction of "convenience" items. Campbell Soup Company took a vigorous step toward diversification last year in acquisition of the nationally known Swanson processing organization, which had developed an extensive market for precooked dinners, meat pies and desserts. Campbell also introduced several types of frozen soups for the so-called "convenience" market. Unusual promotional expenses involved in integration of the Swanson operations and in stimulating volume in frozen soups accounted for narrower margins on increased sales.

In a slightly different field of processing, Beech-Nut Life Savers Company has endeavored to achieve economies in distribution as a means of preserving a place in its industry. The Life Savers organization gained control of the Beech-Nut Packing concern, which had specialized in packing and distributing chewing gum, baby foods, certain meat products and peanut butter as well as coffee. By consolidating sales and distributing organizations and eliminating processing activities that had afforded little or no return on the investment the management hoped to realize substantial economies. Stabilizing effects of the mint candy operation should have a beneficial influence on profits.

In like manner, Standard Brands acquired the corn refining operations of Clinton Foods about a year ago. Although higher depreciation charges resulting from the acquisition, together with interest on funds borrowed to finance the transaction, contributed to higher charges, earning power has been enhanced. In addition, inclusion of the stable corn refining activity should minimize fluctuations that have been experienced from time to time in inventory values of coffee. Benefits of the consolidation may be expected to become more significant in the years ahead.

Although mergers offer promise of operating economies, they frequently lead to increased promotional expenses which exert pressure on margins. As an example, in connection with promotion of pre-cooked meat pies, several processors have advertised rebates on purchases or have given coupons good for price reductions on a second purchase. Promotional gimmicks have been widely used in pushing sales of instant coffee brands. Trade authorities have contended that such keen competition has reduced profits on coffee to unusually narrow margins. Other products included in promotional efforts are margarine and soaps. Such tactics illustrate the extent to which processors are prepared to go in the struggle for the consumer's dollar.

Diversification and Economies by Dairy Companies

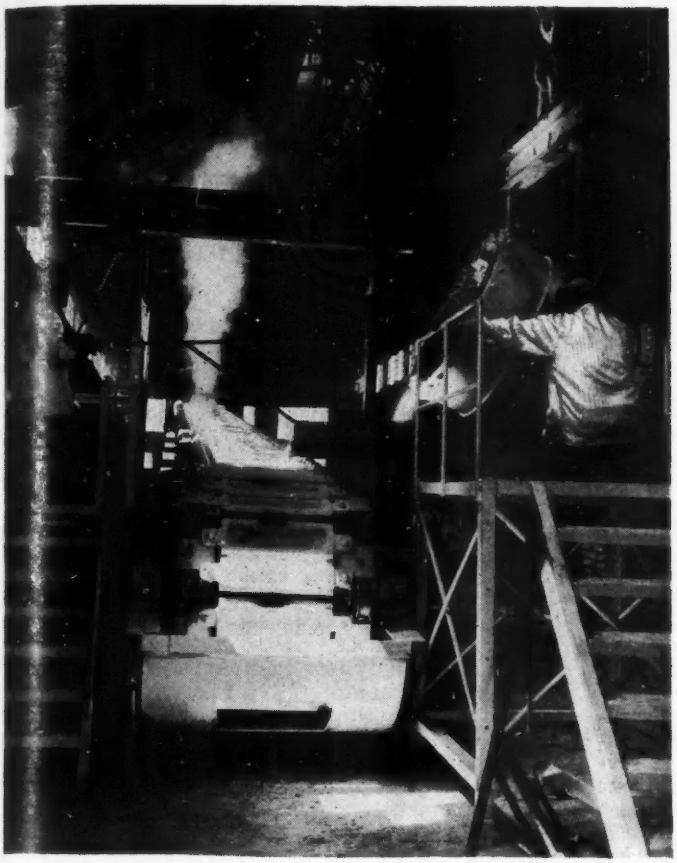
Progress toward diversification and operating economies aimed at preserving reasonable margins has been more pronounced in the dairy category than in some other areas of food processing. The necessity for action became imperative sooner than in most industries. A generation or more ago pressures on the dairy industry manifested themselves as processors sought to pass on to consumers rising distribution costs. Press campaigns and political intervention posed so many problems for dairy companies that managements long ago turned aggressively toward adoption of counter measures. Emphasis has been placed on milk by-products, especially cheese and ice cream, while steps have been taken to reduce home milk deliveries as much as possible.

With labor costs still mounting, greater emphasis must be directed toward economies in home deliveries. Experiments in irradiation indicate that the next move may be toward curtailment of deliveries to once in three days instead of every other day as at present. The new process is reported capable of keeping milk fresh for long periods. In this manner larger territories may be assigned to milk truck drivers, thereby reducing investment in equipment and lowering unit delivery costs.

Such a development could bring about further concentration of operations in stronger hands. Despite restrictive measures interposed in Washington, the trend continues toward consolidations. National Dairy and Borden have dominated the industry for a generation, but in recent years Beatrice and Foremost have expanded rapidly. Government investigations have shown steady shrinkage of independent distributing concerns faced with mounting delivery costs. As a result, an anti-trust action was instituted against the major companies, following an earlier suit against Foremost Dairies, charging violation of anti-trust regulations.

Through research and promotional efforts in marketing practices, both National Dairy and Borden have reduced dependence on fluid milk operations. In the case of the former, fluid milk accounts for only about 30 per cent of sales, while cheese contributes about 23 per cent and ice cream prob-

(Please turn to page 716)



Drastic NICKEL SHORTAGE *Brings in American Companies*

By STANLEY REYNOLDS

The short supply of nickel – essential ingredient for our defense program – is bringing some important companies such as National Lead, Freeport Sulphur and Bethlehem Steel into the picture in an attempt to meet the need for a domestic supply of the metal, and to develop smelting facilities in this country.

The defense demand, which takes at least 40% of all available supplies, as well as the expanded uses of nickel for civilian purposes, and the existing shortage have produced a phenomenal price rise in nickel at a time when other metals are declining. International Nickel, whose output represents 65% of all nickel produced in the free world, raised its price on most of its metal recently from 64½ cents a pound to 74 cents a pound. However, on special contracts, our government is now paying from 90 cents to $1.045 a pound—with a sliding price scale on some agreements ranging up to $1.44 a pound. *In the free world market, the price of nickel has soared as high as $2.50 a pound and more.*

The problem of increasing the supply of nickel lies in the simple fact that it takes three to five years to bring in a nickel ore body. While additional nickel supplies are on the way, there is bound to be a critical shortage of the white metal for several years.

On the supply side of the picture, efforts to correct the shortage have stimulated exploration and development activities not only in Canada and in Cuba but in New Caledonia, the Union of South Africa, the Philippines, Indonesia, Brazil and Venezuela.

Another direction of attack on this problem has been fuller utilization of existing properties, stepped up efficiency in extractive methods and efforts toward conservation in use of the metal.

A dangerous side-light on the supply situation is that we have been leaning so heavily on concentrated production in Canada, that sabotage or bombing of International Nickel smelter at Copper Cliff, Canada might badly upset our defense program.

On the demand side, military production calls for a constantly increasing amount of nickel as an essential metal to qualify for new high temperature and pressure requirements for supersonic planes and for guided missiles for which substantially increased expenditures are proposed in the new budget. Needed electronic devices as well as our accelerating atomic energy program also call for larger amounts of nickel – necessitating aggressive government stockpiling.

On the civilian front, too, nickel occupies an unprecedented position with our widening technological horizons. Demand has grown by leaps and bounds with broader uses, substantial growth of indus-

trial needs, and a growing population. Nickel adds strength to steels for vital parts of ships, construction machinery, railroad equipment, trucks, tractors, and passenger cars. It is used in telephones, TV and radio, and a myriad of household appliances. Its corrosion resisting quality gives it a key place in production of hardware, building exteriors, food processing and laundry equipment in hospitals and hotel kitchens—and has hundreds of special purposes.

This article is presented in the form of a report that points up specifically what is going on—what is being planned to meet the enormous military demand and for stock piling, as well as the increased needs of civilian users.

Outlook: 1. There will be several Congressional investigations of the distribution program. A check of military rated orders for accuracy will be called for in addition to a better solution for getting more nickel to non-defense users (see Table 4). 2. Outgoing Defense Mobilizer Arthur S. Flemming may be blamed for unequitable distribution practices. 3. Even with government incentives, there will only be a few companies interested in developing nickel operations. 4. There will be a growing concern about how the nickel, deferred from U. S. strategic stockpile, is being distributed. 5. There will be talk of reinstating Federal controls, but it will happen only if world tensions grow more complex. 6. Exports of nickel products will be held to less than a half of 1 per cent of total supply available to the U. S.

In an effort to combat possible Congressional scrutiny, the Office of Defense Mobilization and Business & Defense Services Administration have several nickel surveys under way. The government "nickel watch dogs" have been moved from under the auspices of the Iron and Steel division of BDSA to the Miscellaneous Metals and Minerals Division of the same agency. While the same people have virtually moved across the hall of the Commerce Department building, it was felt that it would stop some criticism coming from users who say that steel producers are getting more than their fair share. Job platers are the most vocal about not having enough nickel anodes and salts. BDSA is now surveying the plating industry for suggestions on how the amount of nickel available to them can be distributed "fairly."

1956 Production: Total free world nickel supply reached about 441 million lbs., according to a study on the supply and distribution of nickel conducted by BDSA, (see Table 1). Another estimate: International Nickel Co. of Canada Ltd. reports that production of nickel by the free world reached a new high of about 450 million lbs. during 1956, of which about 290 million lbs. were made available to the U. S. (see Table 2). Inco's production reached about 285 million lbs. during the past year. Other Canadian producers' totals were Falconbridge Nickel Mines Ltd., 43 million lbs.; Sherritt Gordon Mines Ltd., 19 million lbs.

Canadian Outlook: By 1960 Inco will increase its nickel production from about 285 million lbs. to some 390 million lbs. Two new mines in the Mystery Moak Lakes region of northern Manitoba—Thompson and Moak mines—coupled with an expansion of its nickel ore body in the Sudbury district of northern Ontario will account for the growing production.

Inco will spend $175 million to develop the Mystery Moak area. It will be the second largest nickel producing center in the world. Sudbury holds the number one position. Other Canadian producers will expand enough to bring Canada's production to an estimated 465 million lbs. by 1960, says the U. S. Commerce department.

Crux: While investigations will rage during the year, there is only one solution to the problem of distribution—get more nickel. The U. S. government must get more companies interested in producing nickel. To date, the Office of Defense Mobilization has taken steps to intrigue possible new nickel makers by offering rapid tax amortization, government purchase contracts at market prices, and additional financial assistance to domestic and foreign producers to cover unusual development costs involved in bringing in a new ore body. One company estimates it has already spent $80 million in research trying to decide on the advisability of starting to develop an ore body it owns.

While the incentives are good, it will not bring a large influx of interested customers. As one metals research man explains: "With so much going for military applications, who knows what the market might be in 20 years. Perhaps other metals will be taking nickel's place." While this is not likely, it

Pertinent Statistics on Producers and Newcomers in Nickel

	1955 Net Sales (Mil.)	1955 Earnings Per Share	1955 Div. Per Share	1956 Net Sales (Mil.)	1956 Earnings Per Share	Indicated Div. Per Share	Recent Price	Price Range 1956-1957	Div. Yield
CANADIAN PRODUCERS:									
Falconbridge Nickel Mines Ltd.	$ 48.1	$2.15	$1.10	na	$1.03[1]	$1.20	36	44 -29	3.3%
International Nickel	416.3	6.15	3.75	$ 325.5[2]	4.88[2]	3.75	102	115¼-78	3.6
Nickel Rim Mines Ltd.	2.0	.09	......	.7	d .04[1]	......	3⅝	5⅛- 1⅜	....
Sherritt Gordon Mines	22.0	.87	......	na	.40[2]	......	7	10¼- 6	....
AMERICAN COS. ENTERING THE FIELD:									
Bethlehem Steel	2,096.6	4.52	1.81	2,326.7	3.83	2.12	43	49⅝-35⅛	4.9
Freeport Sulphur	63.2	4.96	3.00	na	5.85	3.00	88	97¼-78	3.4
M. A. Hanna Co. 'A'	na	4.96	3.00	na	3.85[2]	3.00	114	131 -107½	2.6
National Lead	533.7	4.02	2.85	427.6[2]	3.49[2]	3.25[3]	103	123½-76½	3.1

d—Deficit.
na—Not available.
1—6 months ended 6-30-56.
2—9 months.
3—Plus stock.

points up a problem, for companies must invest millions of dollars to get into the nickel business and they must have a reasonably secure market. This is why Inco has been reluctant to develop its Mystery-Moak ore bodies any sooner. While it knew that there was nickel in great quantity in the area, the company has to be fairly sure that demand for nickel would stay at present levels or expand. Another consideration is that as military demand grows, research departments working on civilian goods tend to shy away from the metals which are in the greatest demand by the military.

American Companies Involved: Four companies (Freeport Sulphur Co., Bethlehem Steel Corp., National Lead Co., and M. A. Hanna Co.) are possible future nickel producers.

Freeport is developing a sulphuric acid leach process for its laterite ores in Moa Bay, Cuba. If production problems are ironed out in the near future, full scale production could commence in 1959. Bethlehem's Mayari, Cuba, laterite ore is the largest single reserve in Cuba and could adapt to acid leach or ammonium carbonate leach process. The latter has been tested and experts believe it may prove to be an economic method of recovering nickel and cobalt. Production of 10 million lbs. of nickel oxide in 1958 and 20 million lbs. in 1959 is a possibility.

Sponsored by a U. S. contract, National Lead Co., is attempting to recover nickel and cobalt from a complex sulphide ore at Fredericktown, Mo. The problem: Process calls for a ten way separation to recover the nickel.

National Lead also is operating the U. S. Nicaro (Cuba) nickel project which delivered some 31 million lbs. of nickel (oxide, sinter and metallic) last year. With a new expansion just completed, Nicaro will be operating at an annual rate of 50 million lbs. by the third quarter of this year. National Lead should be a strong bidder for the Nicaro operation when General Services Administration puts it up for sale. It is felt that GSA will not sell the operation until substantial operating data on the expanded facilities is obtained.

M. A. Hanna Co.'s silicate deposit in Riddle, Ore., is scheduled to produce 17 million lbs. (contained nickel) of ferronickel this year.

Retrospect: Much attention has centered around the fact that the U. S. deferred 79.3 million lbs. of nickel (see Table 3) from the U. S. strategic stockpile during 1956. But while government leaders say this is giving more nickel to nondefense users, industry is skeptical. Says one metals fabricator: "We still firmly believe that a lion's share of the deferred nickel is being used for military rated orders." The situation is complicated by the Department of Defense's problem of how to determine a year in advance what its nickel requirements will be (see Table 5).

A Commerce department report explains, "Defense agencies do not specify the materials to be used in engine production, but require certain performance standards." This means that higher thrust specifications and operating temperatures (determined during the fiscal year) can call for the use of alloys which contain as much as 20 to 25 per cent nickel. Previous blue prints may have called for the use of an alloy containing only 2 per cent nickel.

Other problems: 1. Highly alloyed metals are more difficult to fabricate, jump the amount of scrap generated. 2. Spare parts requirements are almost impossible to estimate. Engines, which are often altered during construction or while on line, may need modifications calling for large amounts of nickel bearing materials. It is felt by most government materials co-ordinators that spare parts requirements are usually underestimated and that design changes for defense result in a sharp increase in the amount of nickel that is used.

The Commerce department also points out "Reports from industry and the military indicate that nickel bearing stainless steel will be a must in the not too distant future for aircraft skins and structural members." (*Please turn to page* 728)

Table 1
Free World Nickel Supplies Will Grow
(millions of pounds)

	Canada	U.S.	Cuba	New Caledonia	Other	Total
1960*	465.0	20.0	100.0	50.0	6.0	641.0
1957*	360.0	17.0	45.0	40.0	6.0	468.0
1956*	354.0	11.7	31.0	38.0	6.0	440.7
1955	349.2	7.6	30.3	39.0	5.9	432.0
1954	322.5	1.7	29.1	26.0	4.7	384.0

Source: Bureau of Mines
* Estimated by Business & Defense Services Administration

Table 2
U. S. Share of Nickel Supply
(millions of pounds)

	Free World Supply	Available to U.S.	Percent of Total
1956	441	290	65.7
1955	432	277	64.1
1954	384	262	68.2
1953	348	234	67.2
1952	324	213	65.7

Source: Bureau of Mines & Commerce department data

Table 3
1956: U. S. Defers Nickel Stockpile Deliveries

	Deferment (in pounds)
1st Quar.	13,800,000
2nd Quar.	20,500,000
3rd Quar.	20,000,000
4th Quar.	25,000,000
	79,300,000

Source: Office of Defense Mobilization

Table 4
Nickel for Nondefense Uses
(Percent of total distributed to industry groups)

	Steel	Plating	Nonferrous	Foundry	Misc.
1956	39.9	18.9	26.4	5.6	9.2
1955	39.9	18.9	26.4	5.6	9.2
1954	38.9	17.4	30.1	4.4	9.2

Source: BDSA

Table 5
Nickel Consumption for Defense
(Percent of total distributed to industry groups)

	Steel	Plating	Nonferrous	Foundry	Misc.
1956	44.9	4.4	42.5	3.3	4.9
1955	43.2	5.2	42.2	3.7	5.7
1954	28.9	11.3	52.5	4.3	3.5

Source: BDSA

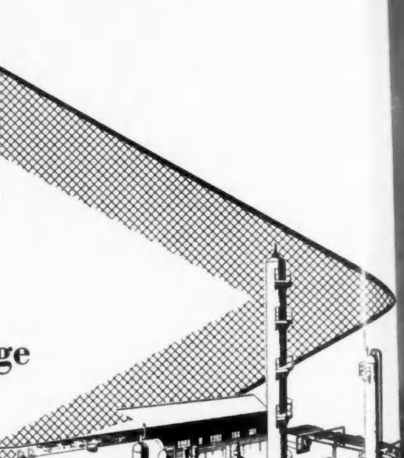
Table 6
U. S. Nickel Exports:
½ of 1% of Available Supply
(pounds of contained nickel)

	Nickel anodes, shot and products	Nickel salts, compounds and semi-finished products	Totals
1956 (1st 3 Quarters only)	58,209	873,871	932,080
1955	74,025	1,208,788	1,282,813
1954	62,329	1,244,991	1,307,320
1953	0	772,905	772,905
1952	17,615	708,488	726,103

Source: Commerce department

SOUND BONDS

Yielding 4% or More With Broad Interest Coverage



By GEORGE V. SELDON

A number of reasons may be advanced why the bond market has had such a severe decline; among them is government spending, inflation, the terrific demand for both business and consumer credit which has produced a scarcity of funds and caused the Federal Reserve to raise the rediscount rate. As a result, the average of 40 bonds has dropped from a high of 101.41 in 1954 to a recent level of 89.53, the low since December 1942. Prices have recovered moderately in the last few weeks to an average of 90.82 recently. This slight clearing of the bond atmosphere may be ascribed to January re-investment demand, hopes for easing of the money rate, signs of a business recession and a decline in the demand for business loans in certain industries such as textiles. There are indications that certain large investing companies have switched an increased portion of funds from stocks to bonds. In many cases, particularly as to growth stocks, the yield is now less than that of the bonds of the same corporation or of others of similar quality. If the economy should start to tilt in the direction of lower corporate earnings, there are a number of stocks that could decline quite severely. At this point bonds seem to be the safer choice and with this in mind the following list has been prepared which may be used as a guide for the selection of bonds possessing excellent qualities of safety, with comparatively attractive yields.

The Bell Telephone System has sometimes been regarded as a regulated monopoly, but there are actually 4,600 other telephone companies in the United States which are giving service in their own territories. Of the 56,490,000 telephones in service in our country at the end of 1955 about 8,461,000 were operated by independently owned companies.

American Telephone & Telegraph Deb 3-7/8% 7/1/90

The subsidiaries of the American Telephone and Telegraph Company provide 80% of the telephone service in the United States. Most of the long lines and microwave relay towers belong to the Bell System and 95% of the toll messages originating in the United States are routed in whole or part over Bell System lines. The System also operates a network of wire and radio, teletypewriter and television transmission circuits; the Bell Telephone Laboratories and the Western Electric Company, a manufacturing unit. It owns jointly with others a submarine telephone cable from Key West to Havana, and one from North America to Europe. The American Telephone and Telegraph Company 3⅞% debentures due July 1, 1990 were issued at 102¾ on July 10, 1956. They are a part of the \$2.0 billion holding company debenture debt and are subject to \$810.0 million of mortgages securing indebtedness of subsidiaries. They are followed by an equity of

$7.68 million of capital stock and surplus. This high quality issue is attractive for the conservative investor as interest coverage is wide and yield is good.

Consolidated Edison 1st Ref. 4¼% 10/1/86

Consolidated Edison, is one of the largest operating utilities in the nation. It provides electric and gas service in all five boroughs of New York City (except in the Rockaways) and in most of Westchester County. It distributes natural gas in Manhattan, Bronx, parts of Queens and Westchester, and it sells steam in certain central and downtown sections of Manhattan. The population served is about 8.7 million. The Company is constructing a 250,000 kw. nuclear power plant up the Hudson River. Arrangements are now being made to take over and operate under lease the present New York City municipal electric plants furnishing current for the subway system. It is a new 600,000 kw load for Con. Edison. Its service area in Queens and Westchester is becoming crowded with new customers. The proposed Brooklyn-Staten Island bridge should build up the population and electric consumption of Staten Island. People may be moving out of Manhattan, but most of them are merely going to another section of the Company's service area. Then office buildings and public housing projects fill up the space. There are many advantages of holding Con. Edison bonds besides their excellent quality and good yield. There certainly is no competition from public power, since neither hydro, flood control or irrigation are involved. Financial position of the system is strong.

Chesapeake & Ohio Railway Gen. Mtg. 4½% 3/1/92

The Chesapeake and Ohio Railway operates a transportation system of over 5000 miles which ties together large areas that are experiencing industrial growth and development. It taps the world's greatest supply of high quality bituminous coals. It sends trains of 160 coal cars down grade most of the way from the mines high in the mountains of West Virginia east to its own great port of Newport News, north to Detroit and across to Sarnia, one of Canada's fastest booming industrial areas, and west to Chicago. The empty trains are easily hauled back up grade. Together with Norfolk & Western and the Virginian, it carrys 88% of all export coal to the Hampton Roads area. This year such shipments are expected to amount to a total of 100 million tons. C & O is in the process of building a more diversified traffic, and revenues from transportation merchandise now exceed those from coal and coke. The road has been able to display a remarkable earning power. Coal from C & O territory is divided between high quality metallurgical and steam grades all in great demand by steel mills and electric power plants both at home and abroad. No one need fear a decline in the demand for such fuel for the foreseeable future. The 4½% bonds are secured by a 1st closed lien on 1,193.21 miles of road including 764.39 miles of main line.

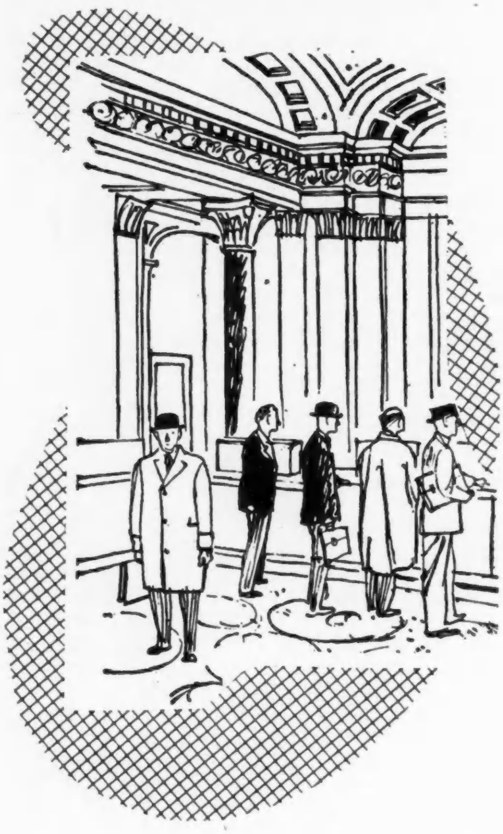
Southwestern Gas & Electric 1st S.F. 3¼% 2/1/70

The Central & South West Corporation is an integrated and well regarded public utility holding company. Its shares are held by 232 institutions and are believed to possess growth possibilities. The Southwestern Gas & Electric Company is one of its principal subsidiaries. It is a 100% electric utility, supplying a population of 510,000 with current produced through its 300,000 kilowatt generating facilities. The Company's service area produces cotton, corn, fruit, livestock and dairy products. Oil, natural gas, coal, iron ore, bauxite, manganese, and limestone are among the tremendous natural resources available. Subsidiaries operate in Oklahoma, Arkansas, Louisiana and Texas. There is competition from local natural gas for cooking and air conditioning but the territory is prospering and this Company's business should continue to grow. This sound bond yields 4.12% and interest charges are being earned 9.11 times representing very wide coverage.

Long Island Lighting S.F. 3⅝% 12/1/76

Long Island Lighting Company serves a population of 1,600,000 in Nassau and Suffolk counties on Long Island, New York. (*Please turn to page* 724)

Rating						Call Price	Recent Price	Current Yield	High and Low 1956	– 1957	Times Charges Earned	Out-standing ($ millions)
Aa	American Tel. & Tel.	Deb.		3⅞%	7/1/90	107¾	98¾	3.93%	101	94	11.2	250.
Aa	Consolidated Edison	1st Ref.		4¼%	10/1/86	107.14	103¾	4.03%	103½	101⅞	5.39	40.0
Aa	Chesapeake & Ohio Ry.	Gen Mtg.		4½%	3/1/92	N.C.	109½	4.00%	123⅛	107½	9.35	50.2
A	Southwestern Gas & El.	1st	S.F.	3¼%	2/1/70	103¾	91¼	4.12%	100	87	9.11	14.3
A	Long Island Lighting	1st	S.F.	3⅝%	12/1/76	103.33	93½	4.12%	103	93½	5.57	25.0
A	California Oregon Pr.	1st	S.F.	3⅛%	11/1/74	103⅞	89	4.01%	96	82	4.41	13.0
A	Columbia Gas	Deb.	S.F.	3⅞%	4/1/81	103.7	98	4.00%	102⅜	93	6.16	40.0
A	Whirlpool-Seeger	Deb.	S.F.	3½%	8/1/80	103½	90	4.16%	98	90	59.0	30.0
A	Great Northern Ry.	Gen. Mtg.	S.F.	4½%	7/1/76	N.C.	103½	4.22%	115½	102	6.54	14.5
A	Illinois Central R.R.	1st	S.F.	3¾%	11/1/84	105	92	4.25%	101½	87½	6.95	15.0
Aaa	U. S. Government			2½%	12/15/72-'67	100	92 28/32	3.07%	96 8/32	87 14/32		3783.



PROFESSIONAL METHODS FOR PROTECTING CAPITAL

Investment Insurance

By JOSIAH PIERCE

Except for brief intervals since last April, market prices of the great majority of corporate equities have undergone slow attrition. And, as the uncertainty of the business outlook increased, more liberal offerings on the selling side continued to pare values.

In the light of the need for a clearer perspective of the 1957 earnings and dividend outlook of various corporations, following the annual reports for 1956 appearing daily, this is assuredly a time for action—a time when investors might consider the advisability of providing protection of profits in securities they intend to retain, by use of professional market techniques.

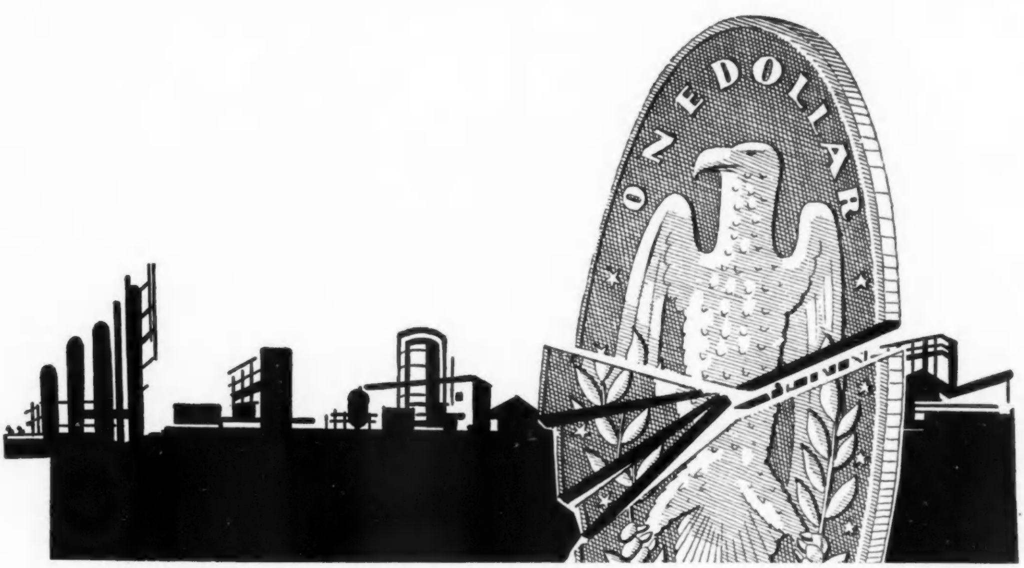
Methods to Employ

Foremost among these market devices are "puts" and "calls" which are a form of investment insurance to preserve profits and avoid loss. These have long been in use by experienced investors and speculators as a means of protecting an unrealized profit on the buy or sell side of the market, or limiting a possible loss on a market commitment. Contrary to the belief held by investors, not fully acquainted with this technique, there is nothing mysterious or complex about the procedure. For their benefit, it should be said that a "put" or a "call" is a negotiable insurance contract or stock option. They are dealt in by put and call brokers and usually carry endorsement by a member firm of the New York Stock Exchange, guaranteeing that the terms of the contract will be fulfilled.

How a "Call" Works

Let us proceed to learn how and under what circumstances such option contracts might be profitably used. For illustration, we will take a hypothetical case of an investor holding 100 shares of XYZ stock, bought at 42. It is currently selling, say at 59, a difference of 17 points in his favor. Being fearful of a reversal in price trend and desiring to protect his profit, yet not wanting to lose his position in the stock, he would appear to be caught in a maelstrom of indecision.

There is a way out. He can sell his stock and have it too, through the purchase of a "call". *After selling his "long" stock in the market,* the investor immediately buys a "call" for the same number of shares. Such "calls" or options are written for periods of time from 30 days to 6 months usually, and some times for even longer. The cost of a 30 day "call" is customarily $137.50 plus taxes for 100 shares, with longer "calls" at higher prices. In the hypothetical case mentioned above, the cost of the "call" for 30 days is but a fraction of the investor's realized profit of $1,700.00 from the sale of his stock. Furthere, he has placed himself in a position to recapture his original 100 shares by exercising his "call" under the option, if the market price rises above the price specified in the (*Please turn to page* 718)



76 ACTIVE STOCKS

Appraised and Rated

By PHILIP DOBBS

It must be clear to all investors that the irregularity of the market indicates uncertainties ahead, and a need for a realistic evaluation of security values in line with earnings and dividends, in light of the higher break-even points in business resulting from various causes.

For some months, our "Business Forecaster" published in each edition, has warned of recessionary tendencies ahead and although no drastic setback in industrial production is indicated, 1957 is likely to see a levelling off in profits—and some real shrinkage among the companies in various fields—while many enterprises which continue to improve will have more difficulty in generating further momentum.

It is significant that in spite of the fact that numerous corporations are announcing an increased volume of sales in the past year, they are also reporting lower net earnings. In addition, a great many reveal a squeeze on working capital and a piling up of inventories which must be financed until they can be worked off under a keener tempo of competition. Such realities will be reflected in security prices and we are bound to see wide variations in stock performances throughout 1957.

In a market like this, it is better to take the offensive rather than follow a "do-nothing" policy and wait for events to occur. Of course, there are many who, when they find the outlook to be less than reassuring, turn for reliance to defensive and other issues of a like character, hoping for greater security. Yet, holding a stock merely because it paid dividends over a long stretch of years—or because it is selling low in relation to its book value, is not likely to be a sound basis today in the light of the revolutionary changes that have taken place in our economy and in the nature and activities of individual companies. In fact, some of these hitherto so-called defensive issues need to be carefully examined, for, under today's conditions, any of them may become static or vulnerable. Certainly, there is little point in holding an equity for its dividend return when it may dwindle in price to an extent several times offsetting its dividend.

Moreover, despite the uncertainty and over-priced status of various issues, a number of companies are in a dynamic position looking to 1957. It therefore seems simple common sense to put your money in those issues in which the future holds greater promise—enterprises with the advantages of managerial ingenuity, with ample working capital and where earning power is likely to be maintained or increased.

In recent issues of the Magazine, we have been carefully scrutinizing 1956 financial statements, but the past is now history, except in so far as these statements give us a picture (*Please turn to page* 734)

PERFORMANCE OF ACTIVE STOCKS

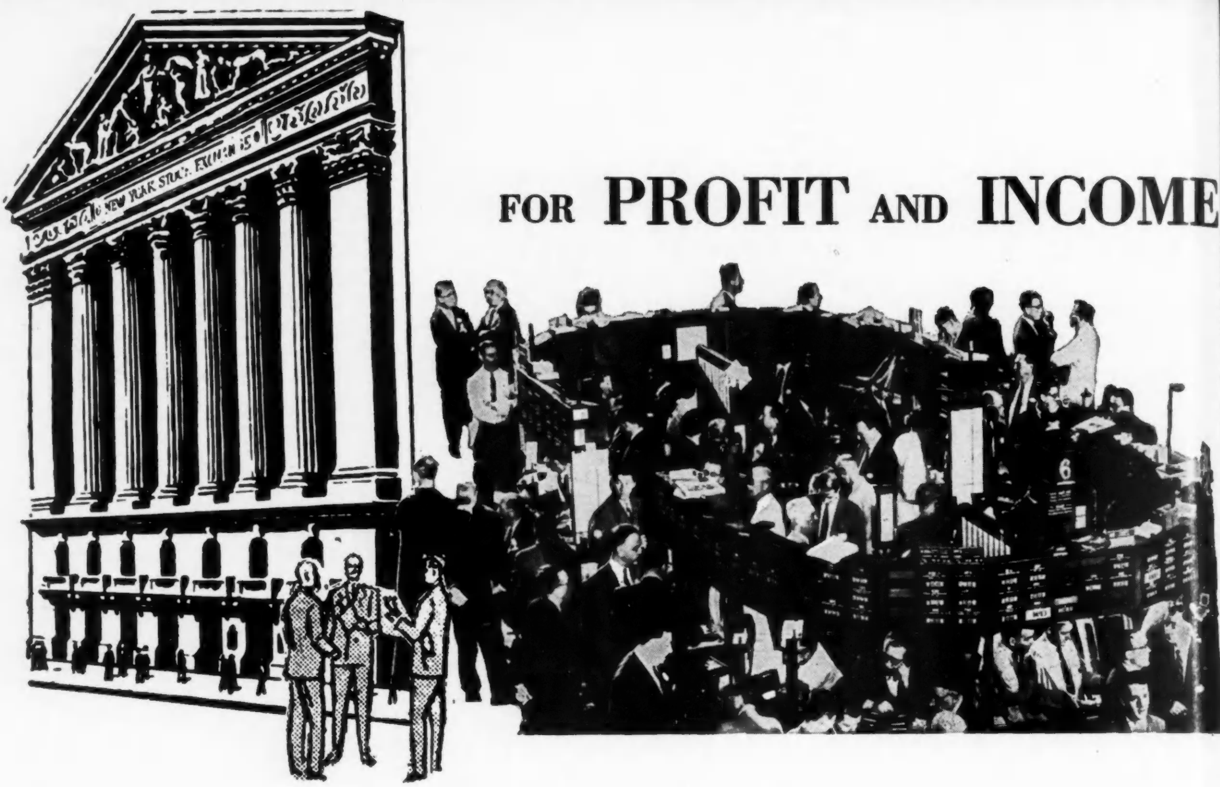
	—1954— Earnings Per Share	—1955— Earnings Per Share	—1956— Earnings Per Share	Latest Indicated Div. Rate	Price Range 1956-1957	Recent Price	Div. Yield	Comments
AIR REDUCTION	$1.82	$3.21	$4.32	$2.00	52 - 36⅜	47	4.2%	Diversification in chemical field points toward expanding earning power.
AMERICAN CAN	2.53	3.04	2.92	2.00	49⅛- 40	40	5.0	A high-quality stock offering dependable income.
AMER. SMELT. & REFIN.	3.30	5.52	5.09[1]	3.50	59⅛- 46¾	51	6.8	Stock is sensitive to non-ferrous metal price fluctuations.
AMERICAN TOBACCO	6.12	7.45	5.62[1]	5.00	84¼- 68⅛	73	6.8	One of the largest cigarette makers. Favorable 1957 earnings outlook, despite health issue.
ANACONDA CO.	3.07	7.52	12.84	5.00	87¾- 62¾	63	7.9	Issue depressed by weakness in copper price and recent new stock offering.
ATLAS POWDER	4.06	4.70	5.61	2.40	91 - 61¾	70	3.4	Expected dip in industrial chemical sales may drop 1957 net slightly under last year's level.
BETHLEHEM STEEL	3.30	4.52	3.83	2.12	47¼- 41⅜	42	5.0	If demand for heavy steels and good shipbuilding business continues—1957 earnings should close to 1956 level.
BOEING AIRPLANE	4.93	4.67	3.51[1]	1.25[3]	65⅜- 45⅜	53	3.7	Sizable order backlog assures close to capacity output in 1957 and higher earnings. Stock is volatile.
BRISTOL-MYERS	2.12	2.98	3.55	1.75	45⅝- 28⅜	43	4.0	New products strengthens position of this proprietary-ethical drug manufacturer. Favorable 1957 outlook.
C.I.T. FINANCIAL	3.85	4.03	3.06[1]	2.40	48¼- 39⅜	41	5.8	Volume of receivables now on books indicate 1957 net on level with last year's estimated $4.10 a share.
CERRO de PASCO CORP.	4.57	8.87	4.37[1]	1.60[3]	77¾- 44¾	48	3.3	Improved position through entry into metals fabricating field. Lower copper prices likely to cut 1957 earnings.
CHRYSLER	2.13	11.49	2.29	3.00	87 - 60	67	4.4	Expect good 1957 first six months. Full year results hinge on final half sales.
COMMERCIAL SOLVENTS	1.01	1.31	.76[1]	1.00	21⅝- 16½	17	5.8	Diversification aiding earnings uptrend. Stock however is speculative.
CORN PRODUCTS	1.80	2.29	1.33[1]	1.50	32⅜- 27½	28	5.3	New products expanding earning power behind this good grade common stock. Stable dividend.
DEERE & CO.	2.76	3.91	2.67	1.75	34⅞- 25⅜	28	6.2	Some moderate improvement recently noted in farm equipment industry. Longer-range prospects, however, uncertain.
DIST. CORP.—SEAGRAMS	4.09	3.54	2.63	1.70	39½- 29⅜	30	5.6	Recent industry-wide price rise expected to help 1957 earnings. Holds strong trade position.
DOUGLAS AIRCRAFT	9.80	7.65	8.96	4.00	95⅝- 72½	79	5.0	1957 prospects indicate earnings above last year's $8.96 a share. Important in missile field.
DOW CHEMICAL	1.42	1.64	2.52	1.20	82⅞- 57	59	2.0	Heavy plant amortization obscures cash earnings which may dip this year below 1956.
FORD MOTOR	4.31	8.17	4.38	2.40	63⅜- 51⅝	55	4.3	Any gain in 1957 net over previous year depends on sales improvement over full 12 months.
GENERAL AMER. TRANS.	4.79	5.25	5.65	3.45	77½- 60¼	73	4.7	Strong position in freight car rental field, aided by continuing diversification.
GENERAL DYNAMICS	3.15	2.82	2.75	2.00	60¾- 45⅛	59	3.3	Sizable backlog for diversified items could produce 1957 earnings gain. Associated with missile and nuclear energy work.
GENERAL ELECTRIC	2.30	2.31	1.85[1]	2.00	65½- 52⅜	55	3.6	Even at present price, stock of investment quality, but sells at premium on growth prospects.
GENERAL MOTORS	3.02	4.26	2.28[1]	2.00	49¼- 39⅛	40	5.0	Keener competition from others in the Big Three cutting into car sales and earnings.
GIMBEL BROS.	2.34	3.16	1.65[1]	1.40	31⅛- 23⅛	24	5.8	1957 earnings prospects depend upon sustained consumer buying.
GOODRICH (B. F.)	4.40	5.26	3.44[1]	2.20	89¼- 66	68	3.2	Expanding tire replacement market and improved position in non-tire lines are factors in 1957 earnings outlook.
GOODYEAR TIRE & RUBBER	5.04	5.76	6.02	2.40	84 - 60	73	3.2	Non-tire products should contribute materially to 1957 earnings which are expected to show moderate gain over 1956.
GREAT NORTHERN RWY.	4.21	5.27	5.32	3.00	46⅞- 38⅜	43	6.9	Higher freight rates, together with prospects of satisfactory traffic, point to 1957 net comparable to 1956.
GREEN (H. L.) CO.	2.99	3.06	1.16[1]	2.25	33⅜- 25¾	28	8.0	Sales gains lagging behind competitors. Higher operating costs and competition restrict profit margins.
GULF OIL	7.16	8.19	7.31[1]	2.50	147½- 83¾	112	2.2	Mid-East operations substantial contributor to earnings. Expanding Western Hemisphere interests.
HOMESTAKE MINING	.83	.97	.45[2]	2.00	40½- 31¼	36	5.5	Large gold producer with uranium properties. Operating costs and current gold price restrict earnings gain.
INGERSOLL-RAND	3.80	4.54	6.34[1]	3.50	88½- 59	76	4.6	An investment quality issue. Immediate prospects indicate earnings comparable with 1956.
INTERNATIONAL NICKEL	4.35	6.15	4.88[1]	3.75	115¼- 78	101	3.6	World's largest nickel producer. 1957 earnings expected to match 1956's.
INTERNATIONAL PAPER	6.03	7.82	5.58[1]	3.00	144½- 98⅛	99	3.0	Some contraction in 1957 paper sales expected. 1957 earnings may fall short of last year's rate.
INTERNATIONAL SALT	8.61	10.08	6.87[1]	5.50	144 - 94	116	4.7	Stock is of investment quality. Earnings, however, influenced by winter weather conditions.
INTERNATIONAL TEL. & TEL.	2.80	3.21	4.43[1]	1.80	37⅜- 29¼	30	6.0	Increasing diversification plus manufacture of communication and electronic equipment. Rising earnings.
JEWEL TEA	3.01	3.49	4.16	2.00	55 - 44¾	49	4.0	Food chain and home service routes expanding. Competition keen. Management progressive.
JOHNS-MANVILLE	2.62	3.68	3.79	2.25	58¾- 43⅛	44	5.1	Dominant position in asbestos. Also active in other building materials. Well managed and sound company.
LORILLARD (P.) CO.	$1.98	$2.07	$ .91[1]	$1.20	21⅛- 15⅛	16	7.5%	Earnings declined last year, outlook depends on competitive factors.

[1]—9 months. [2]—6 months. [3]—Plus stock.

Performance of Active Stocks—(Continued)

	1954 Earnings Per Share	1955 Earnings Per Share	1956 Earnings Per Share	1956 Latest Indicated Div. Rate	Price Range 1956-1957	Recent Price	Div. Yield	Comments
MACY (R.H.) & CO.	2.14	2.64	3.06	2.00	33⅛- 28⅛	28	7.1	**MACY (R. H.) & CO.:** Aggressive management —1957 must reckon on keen competition and rising costs, including wages.
MONSANTO CHEMICAL	1.46	1.90	1.80	1.00	51¼- 31¼	32	3.1	**MONSANTO CHEMICAL:** Decline in 1956 earnings reflects increased competition. Await new developments.
NATIONAL BISCUIT	2.85	2.59	2.90	2.00	39½- 34⅝	37	5.4	**NATIONAL BISCUIT:** Primarily defensive type issue. Well-protected dividend provides safety.
NATIONAL CASH REG.	1.94	2.33	1.80[1]	1.20	59 - 34⅛	48	2.5	**NATIONAL CASH REGISTER:** Increasing importance in industry, including electronics. Near-term growth depends on economic outlook.
NATIONAL GYPSUM	4.56	4.61	3.08	2.00[3]	61⅞- 36¾	37	5.4	**NATIONAL GYPSUM:** Aggressive expansion held back 1956 earnings. Dependent primarily on building activity.
NATIONAL LEAD	3.05	4.02	3.49[1]	3.25	123½- 76½	103	3.1	**NATIONAL LEAD:** Growth company, expanding into new fields, including titanium. Stock had sharp rise.
NEW YORK CENTRAL	1.42	8.33	6.02	2.00	47¼- 28	28	7.1	**NEW YORK CENTRAL:** Earnings improvement largely dependent on pending rate increases and economic outlook.
OLIVER CORP.	1.61	2.13	.76	.60	17⅜- 11	12	5.0	**OLIVER CORP.:** Uncertain farm equipment outlook, following sharp 1956 earnings decline. Issue speculative.
PENNEY (J. C.) CO.	5.30	5.60	2.08[2]	4.25	101 - 77	78	5.4	**PENNEY (J. C.) CO.:** Investment type issue. Dependent on increased consumer buying of soft goods.
PFIZER (CHAS.)	2.95	2.94	3.36	1.75	51½- 37¼	45	3.8	**PFIZER (Chas.):** Growing position in antibiotics and ethical drugs, including new products. Outlook continues favorable.
PHELPS DODGE	4.19	7.28	6.75[1]	4.30	76⅞- 51	55	7.8	**PHELPS DODGE:** Copper supply exceeds demand. Consequent declining price of metal. Outlook clouded.
PHILLIPS PETROLEUM	2.60	2.78	2.77	1.70	56¾- 43¼	45	3.7	**PHILLIPS PETROLEUM:** Sound and aggressive domestic company. Large natural gas reserves. Further growth indicated.
PITNEY BOWES	2.41	2.82	2.19[1]	1.60[3]	70¾- 45	57	2.8	**PITNEY BOWES:** Leader in mailing equipment. 1957 growth dependent on economic developments.
RADIO CORP. OF AMER.	2.66	3.16	1.82[1]	1.50	50⅜- 31⅝	32	4.6	**RADIO CORP. OF AMERICA:** Leader in electronics. Color TV development costs and competition in various products cut 1956 earnings.
REYNOLDS METALS	2.02	3.41	3.00[1]	.65	85 - 45⅛	55	1.1	**REYNOLDS METALS:** Current expansion program providing base for further growth, but aluminum over-production looms.
ROYAL McBEE CORP.	1.83	2.45	3.47	1.40	36⅛- 27½	32	4.3	**ROYAL McBEE:** Diversification strengthens position. 1957 operating results to depend on general business conditions.
ST. JOSEPH LEAD	2.86	4.69	3.79	3.00	52 - 38¼	39	7.6	**ST. JOSEPH LEAD:** Earnings hinge on stable lead and zinc prices. Stock volatile.
SIMMONS COMPANY	4.18	5.31	2.39[2]	3.10	55½- 45¾	47	6.5	**SIMMONS CO.:** 1957 earnings depend on sustained high level of consumer buying and home building.
SOUTHERN PACIFIC	5.38	5.71	5.14	3.00	58⅞- 42⅛	43	6.9	**SOUTHERN PACIFIC:** Increased freight and passenger rates improves outlook. Dividend coverage is wide and yield liberal.
SOUTHERN RAILWAY	3.58	5.39	5.53	2.80	49⅜- 38½	43	6.5	**SOUTHERN RAILWAY:** Operates in a growth territory with continuing favorable prospects.
STANDARD OIL OF N. J.	2.98	3.61	3.07[1]	2.20	62⅝- 49½	54	4.0	**STANDARD OIL (N. J.):** Aggressive giant under outstanding leadership. Large West. Hemisphere crude reserves — Mid-East book value low.
SUTHERLAND PAPER	3.81	3.30	3.85	2.00	52½- 35½	37	5.4	**SUTHERLAND PAPER:** Slackened folding box demand and keener competition likely to effect first half-year net.
TIDEWATER OIL	3.13	3.03	1.62[2]	1.20	47¾- 32⅜	32	3.7	**TIDEWATER OIL:** New refinery should contribute to 1957 operating results. Expect dividends "in stock" to continue.
UNION BAG—CAMP PAPER	2.06	2.68	2.33[1]	1.50	47½- 31½	33	4.5	**UNION BAG-CAMP PAPER:** Indicates gain in 1956 earnings over 1955 but near term results depend on competitive position.
UNION CARB. & CARBON	3.13	4.86	4.86	3.60	133⅜-100⅝	102	3.5	**UNION CARBIDE & CARBON:** Diversification and excellent management underlie long-term growth potentials.
UNITED AIRCRAFT	5.11	6.14	4.02[2]	3.00	96½- 61¾	79	3.7	**UNITED AIRCRAFT:** Heavy order backlog indicates 1957 earnings on a par with those of 1957.
UNITED FRUIT	3.59	3.82	2.00[2]	3.00	55 - 43⅜	46	6.5	**UNITED FRUIT:** Ranks as a good quality stock. Has a sustained dividend record.
U. S. RUBBER	4.29	5.14	4.83	2.00	60⅞- 40	41	4.9	**U.S. RUBBER:** Earnings in a rising trend. A notable issue with good growth prospects.
U. S. STEEL	3.23	6.45	6.01	3.00	73¾- 51⅜	59	5.0	**U. S. STEEL:** Industrial leader. Strongly diversified. 1957 depends on autos, road building, construction.
WESTINGHOUSE ELECTRIC	4.78	2.46	.10	2.00	65⅞- 50⅞	53	3.7	**WESTINGHOUSE ELECTRIC:** Has made good recovery from prolonged strike a year ago and should show improved 1957 earnings.
WHEELING STEEL	4.98	8.12	8.20	3.40	69¾- 46	55	6.1	**WHEELING STEEL:** Favorable near-term outlook with 1957 earnings indicating ample dividend coverage.
Y'GSTOWN SHEET & TUBE	6.02	12.34	12.62	5.00	131½- 83⅜	101	4.9	**YOUNGSTOWN SHEET & TUBE:** Strong industrial position and good earning power gives stock investment status.

[1]—9 months. [2]—6 months. [3]—Plus stock.



FOR PROFIT AND INCOME

March

On the basis of the long-term record of net market gain or loss, March has been the second best of the first-half months, and not far behind January. For the industrial average it has brought ups in 35 years since 1897, downs in 25; for rails, some gain on the month in 34 years, some decline in 26. The January score for industrials is 38 ups, 23 downs; for rails, 35 ups and 26 downs. Of course, the record is merely an average of differences from year to year. While January has been among the four better months of the year, on average, it was a poor month this year. February has been a down month more often than not, but not by more than a moderate numerical margin. As things look at this writing, another minus may be added to its record. If so, the total January-February decline this year could provide a technical basis for a possible March gain. However, it would not take much extension of the recent rally to subtract from March potentials.

Stocks

At this writing, stocks showing stand-out strength are almost as scarce as hens' teeth. Among them are: Aeroquip, American Bosch, Chrysler, General Dynamics, Thompson Products. General Dynamics has much in its favor, and conceivably might be the 1957 market leader in the aircraft group. Record earnings are expected for Thompson, improved earnings for Chrysler. The conspicuously weak stocks are far too numerous to list. A few of the more prominent names among them are: General Motors, Anaconda, Allied Stores, Champion Paper, Corning Glass, General Foods, International Paper, Minnesota Mining & Mfg., Montgomery Ward, Motorola, Owens-Corning Fiberglas, Philco, Phillips Petroleum, Pullman, Socony Mobil, Union Carbide, Fruehauf Trailer, U. S. Hoffman and Woolworth.

Socony

Looking over the soft issues at this time, Socony Mobil seems to be over-depressed and worth buying at current price around 49, down from earlier high of 66. Special pressure was put on it by the recent offering of 4,379,-758 additional shares to stockholders on a 1-for-10 basis to add around $200 million to funds available for the company's large-scale expansion-improvement program. The stock has rallied well after absorption of previous equity financing. Earnings are officially reported at approximately $5.70 a share for 1956, a new record, up from $4.74 in

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1956	1955
Chickasha Cotton Oil	6 mos. Dec. 31	$ .40	$ 1.04
Sharon Steel	Year Dec. 31	6.28	7.26
Rohm & Haas Co.	Year Dec. 31	15.21	16.73
Chrysler Corp.	Quar. Dec. 31	1.57	3.38
Penna. Salt Mfg. Co.	Quar. Dec. 31	.55	.66
Allied Mills	Quar. Dec. 31	.61	.70
Bridgeport Brass Co.	Year Dec. 31	2.80	4.25
St. Joseph Lead	Quar. Dec. 31	1.08	1.31
Sylvania Electric Products	Year Dec. 31	4.03	4.29
Spiegel, Inc.	Year Dec. 31	2.12	2.42

1955. About three-fifths of earnings normally derive from Western Hemisphere operations and nearly half of them from U. S. operations. Major foreign holdings include interests in Iraq and Saudi-Arabia. The stock is now priced at less than 9 times 1957 earnings, yielding over 5% on the indicated $2.50 dividend basis, of which $2 is "regular" the balance "extra". Allowing for the increase in shares, 1957 earnings might be somewhere between $5 and $5.50 a share—much depending on later oil industry conditions as regards supply, demand and prices. However, this is a fairly well-balanced operation. It would gain something from resumption of normal Middle East operations as an offset to possible less favorable later conditions in the domestic market, just as favorable domestic results have recently offset the impact of Middle East developments. The company's year-to-year profit gain in the first nine months of 1956 was about 22%. In the fourth quarter, despite the Middle East difficulties, it was still over 15% ahead of a year ago.

Stock Groups

Despite some exceptions, stock groups now performing better than the market are mostly those which have been quiet and laggard for some time or groups in technical rallies after recent sharp declines. They include aluminum, containers, coppers, baking, finance companies, gold mining, liquor, electrical equipment and shoes. The exceptions, with special reasons for an above-average performance, are shipbuilding, in which there is speculative appeal due to an assured extended period of rising volume and earnings; and electric and gas utilities, which have above-average merit for relatively conservative investment purposes. Groups which have recently fared worse than the market include aircrafts, air lines, chemicals, machine tools, metal fabricating, crude oil producers, paper, radio-television, rail equipment, steel, sulphur, textiles, and tires. However, it is a fast-moving market; and in a sharp rally at the moment of this writing. In a volatile market the relative positions of some of the stock groups and of many individual stocks can change materially from week to week, or even from day to day. While there are no fixed rules, we generally prefer stocks, and stock groups, for which there is a strong case both on the fundamentals and on the basis of technical behavior over more than a fleeting period of time.

Low-Priced

Some investors with limited sums of capital have a preference for low-priced stocks. There are a fair number of such issues among electric utilities. Above-average growth potentials are indicated for California Electric Power, selling around 14 and yielding 5.4% on a 76-cent dividend rate; for Southern Company, at 22, yielding 5% on a $1.10 rate; for Southwestern Public Service, now around 26, to yield 5.4% on a $1.40 dividend; and for Utah Power & Light, at 25, yielding 4.8% on a $1.20 rate. The rates were recently raised by Southern Company and Utah, possibly meaning no further boost before 1958. There was also an increase by Southwestern, but small enough to leave probability of another one later this year. Although less assured, a nickel or so might be added to California Electric Power's rate before the year end.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1956	1955
Mach. Trucks, Inc.	Year Dec. 31	$4.75	$3.13
Master Electric Co.	Year Dec. 31	3.04	2.04
Maytag Co.	Year Dec. 31	4.90	3.51
Chicago Pneumatic Tool	Year Dec. 31	7.30	5.23
Champlain Oil & Refining	Year Dec. 31	2.28	1.67
General Portland Cement	Year Dec. 31	4.58	3.94
Sunbeam Corp.	9 mos. Dec. 31	3.01	2.56
Canada Dry Ginger Ale	Quar. Dec. 31	.53	.42
Dixie Cup Co.	Year Dec. 31	4.91	4.39
Pfizer, Chas., & Co.	Year Dec. 31	3.36	2.94

High Yield

Empire District Electric serves a fairly small, compact Tri-State lead-and-zinc producing area, including sections of Missouri, Kansas, Oklahoma and Arkansas. However, lead and zinc mines provide only 8% of revenue (based on the 1955 breakdown) and other industrial load only 28%. The bulk of the business (residential, rural, commercial and wholesale) is fairly stable. The record shows that it would take a more serious business recession than any adjustment seen heretofore in the postwar era to lower company's net income. Present earning power is about $1.60 a share, the dividend rate $1.20. The payout ratio is moderately above the industry's average, but not greatly so. The rate represents a modest increase made recently befor a 3-for-2 split; and it appears secure enough for all practical purposes. The stock is around 20, yielding a much above-average 6%.

Aircraft

The aircraft stock group is assured of good and rising earnings for at least the next several years. Therefore, its recent sell-off could only have been a technical correction, following large prior advance. It is true that increasing emphasis on guided missiles can be at ultimate expense to orders for military planes; but the shift may be partial, it will in any event take considerable time, and most aircraft makers are participating actively in, and will profit from, the guided missiles program. There is uncertainty, of course, as to how future shifts in procurement contracts for missiles will affect individual companies; but there has always been this uncertainty in procurement of aircraft. Despite it, investors have fared well in stocks of leading companies. Among companies with a relatively large interest in missiles—measured by the ratio of this business to present or prospective total volume—are Martin (Glenn L.), Chance Vought and Northrop.

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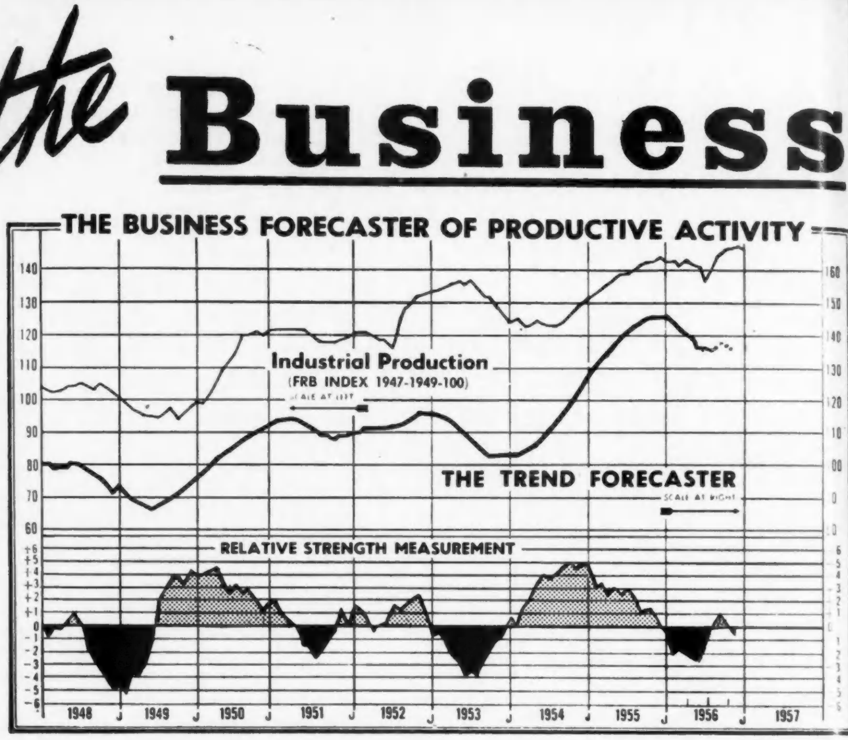
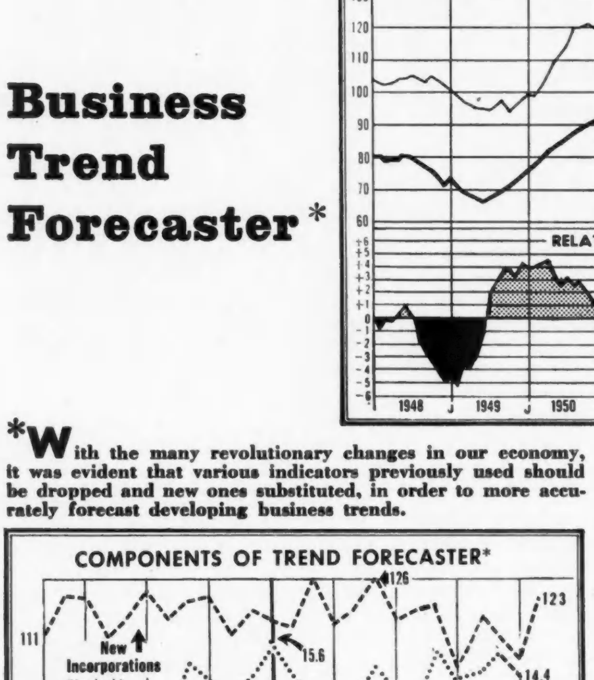
the Business



Business Trend Forecaster*

*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



*—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Moving into the first quarter of 1957, the behavior of the eight selected components of the **Trend Forecaster** remains mixed, but with a slight downward drift.

In recent months, housing starts, average hours worked, and commodity prices have moved downward more or less continuously. Durable goods orders and new incorporations have behaved erratically. Stock prices and nonresidential contract awards have also been erratic, but recent preliminary data suggest a declining trend in the early months of 1957. Business failures have exhibited no clear trend.

Summarizing these diverse movements, the **Relative Strength Measurement** was evidently in a decline throughout the fourth quarter of the year, and preliminary indications are that it is in a negative zone in early 1957, although still not close to the minus 3 level suggestive of the commencement of a serious recession. The **Trend Forecaster** itself was declining slowly throughout 1956, with only a brief interruption in the months following the mid-year steel strike.

In general, the behavior of the **Trend Forecaster** and its companion measurements still resembles closely their behavior in 1948, preceding the short recession of 1949. Further declines in the measures in early 1957 would thus be strongly suggestive of recession by mid-year.

Analyst

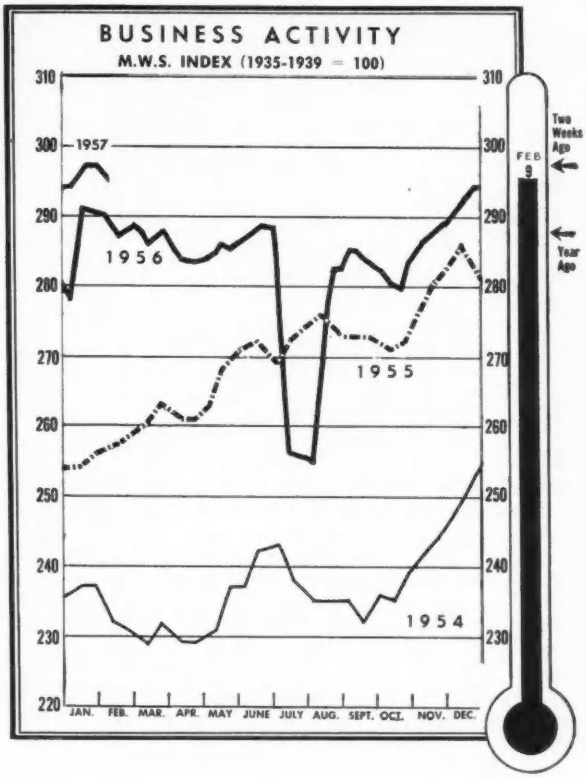
CONCLUSIONS IN BRIEF

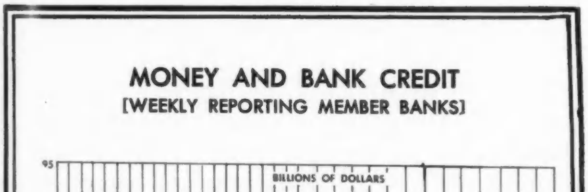
INDUSTRY — **Trend of production is no longer upward. Present weakness is in consumer durables, and in a few soft goods. Further weakness impending in some machinery lines. For the next few months: stable to slow decline.**

TRADE — **Retail volume still holding up well, except in some appliances. Auto sales somewhat better, but still not up to previous expectations. Personal income no longer rising, and trade outlook is for little or no gain over late months of 1956.**

MONEY AND CREDIT — **shows signs of a little easing through natural money-market developments and seasonal trends. The Fed remains restrictive, sopping up excess funds as they appear, but is expected to loosen up a bit, to counteract the drain of coming tax payments this Spring. On the basis of current business trends, a more permanent easing of credit policy may not be too far away.**

COMMODITIES — **no underlying short-term trend apparent, with individual commodities reacting to individual market conditions. But longer term-pressure —for the next six months—is increasingly downward. Note copper, steel scrap, even aluminum.**





In recent weeks, the news emanating from the centers of business activity has been something less than inspiring. To mention just a few of the more disconcerting items; commodity prices have shown little or no strength; many of the so-called bell-wether raw materials prices such as lumber, steel scrap, copper, have weakened significantly; machinery orders have been definitely subsiding; applications for VA and FHA housing financing have declined to the lowest levels in years, and contract awards for both residential and nonresidential structures have likewise declined; automobile sales, while far from bad, have hardly lived up to expectations in a year when model-changeovers have been so massive (and so expensive); inventory demand appears to be weakening in many areas, judging from reports of purchasing agents; sales of consumer durables other than autos (television sets, appliances, furniture) have been reported as relatively slack, and consumer trade in aggregate, while it has been satisfactory, has hardly been booming.

From the recent statistical news, it seems clear enough that the short-term business expansion born in late 1954 is fast ebbing. Now on the horizon are gathering weaknesses in inventory demand, in capital goods demand, and perhaps in consumer demand as well, and one need not be a pessimist to argue that such measures of general business activity as the Federal Reserve's industrial production index are now likely to end 1957 at a level lower than at the start of the year.

The evidence in support of this proposition is now becoming so clear that it is perhaps time to turn analysis in another direction. Given all the apparent weaknesses in individual industries, it is *(Please turn to following page)*

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Jan.	146	147	143
Durable Goods Mfr.	1947-'9-100	Jan.	164	166	160
Nondurable Goods Mfr.	1947-'9-100	Jan.	130	130	129
Mining	1947-'9-100	Jan.	130	130	131
RETAIL SALES*	$ Billions	Dec.	16.5	16.4	15.8
Durable Goods	$ Billions	Dec.	5.8	5.7	5.7
Nondurable Goods	$ Billions	Dec.	10.7	10.7	10.1
Dep't Store Sales	1947-'9-100	Dec.	129	131	123
MANUFACTURERS'					
New Orders—Total*	$ Billions	Dec.	28.8	29.4	28.0
Durable Goods	$ Billions	Dec.	14.4	15.1	14.2
Nondurable Goods	$ Billions	Dec.	14.3	14.3	13.8
Shipments*	$ Billions	Dec.	28.7	28.7	28.0
Durable Goods	$ Billions	Dec.	14.4	14.3	14.2
Nondurable Goods	$ Billions	Dec.	14.3	14.4	13.8
BUSINESS INVENTORIES, END MO.*	$ Billions	Dec.	88.5	88.0	82.1
Manufacturers'	$ Billions	Dec.	51.4	51.3	45.9
Wholesalers'	$ Billions	Dec.	13.3	13.2	12.3
Retailers'	$ Billions	Dec.	23.8	23.5	23.9
Dept. Store Stocks	1947-'9-100	Dec.	143	142	135
CONSTRUCTION, TOTAL	$ Billions	Dec.	3.4	3.8	3.3
Private	$ Billions	Dec.	2.5	2.7	2.4
Residential	$ Billions	Dec.	1.2	1.3	1.3
All Other	$ Billions	Dec.	1.3	1.4	1.1
Housing Starts*—a	Thousands	Dec.	1,030	1,060	1,192
Contract Awards, Residential—b	$ Millions	Dec.	451	625	711
All Other—b	$ Millions	Dec.	1,125	1,065	1,210
EMPLOYMENT					
Total Civilian	Millions	Dec.	64.6	65.3	64.2
Non-Farm	Millions	Dec.	53.0	52.5	52.0
Government	Millions	Dec.	7.6	7.3	7.3
Trade	Millions	Dec.	12.1	11.5	11.8
Factory	Millions	Dec.	13.3	13.4	13.5
Hours Worked	Hours	Dec.	41.0	40.6	41.3
Hourly Earnings	Dollars	Dec.	2.05	2.03	1.93
Weekly Earnings	Dollars	Dec.	84.05	82.42	79.71
PERSONAL INCOME*	$ Billions	Dec.	333.5	333.5	317.5
Wages & Salaries	$ Billions	Dec.	233	231	218
Proprietors' Incomes	$ Billions	Dec.	51	52	49
Interest & Dividends	$ Billions	Dec.	29	30	30
Transfer Payments	$ Billions	Dec.	19	19	18
Farm Income	$ Billions	Dec.	15	16	15
CONSUMER PRICES	1947-'9-100	Dec.	118.0	117.8	114.7
Food	1947-'9-100	Dec.	112.9	112.9	109.5
Clothing	1947-'9-100	Dec.	107.0	107.0	104.7
Housing	1947-'9-100	Dec.	123.5	123.0	120.8
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Dec.	106.6	106.7	105.8
Bank Debits*—g	$ Billions	Dec.	76.6	78.8	78.7
Business Loans Outstanding—c	$ Billions	Dec.	31.3	30.4	26.7
Instalment Credit Extended*	$ Billions	Dec.	3.4	3.5	3.3
Instalment Credit Repaid*	$ Billions	Dec.	3.2	3.2	2.9
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Nov.	4.8	3.2	4.7
Budget Expenditures	$ Billions	Nov.	5.7	5.0	5.2
Defense Expenditures	$ Billions	Nov.	3.5	3.7	3.1
Surplus (Def) cum from 7/1	$ Billions	Nov.	(0.9)	(2.8)	(0.5)

PRESENT POSITION AND OUTLOOK

also true that there is an almost total absence of recession panic, either among businessmen or in the business press. Psychologically, businessmen are gradually (although belatedly) preparing themselves for a season of rougher weather, but they are not (at least not yet) cancelling commitments on a large scale, pressing their debtors, or otherwise taking to the hills. The longer they maintain this practical calm, the less severe will be the storm. There is, perhaps, no more encouraging element in the present situation than the way in which inventory policy is being gradually reversed from accumulation to tight control, without alarm or excessive speed.

* * *

PRODUCTION — it is turning slowly in a broad, undramatic top. In January, the Federal Reserve's index of industrial production declined a point, but one-point differences in this sensitive index are hardly significant. In fact, it might be said that production has been on a virtual plateau since about October, and since the Federal Reserve retains the right to revise the figures for two years after publication, it may yet turn out that way in the index itself. **In fact, the plateau may well draw along throughout the first quarter:** at the moment, there are no pronounced tendencies within the total index to drive it one way or another.

* * *

INVENTORIES — at the moment, inventory accumulation is again concentrating in durables manufacturing. During January, durables manufacturers got a grip on their stocks, but durables retailers were getting loaded up. As a result, retailers stopped buying. This precipitated production cuts in such lines as appliances and radio-television, which in turn reduced the rate of steel consumption, and steel inventories began to increase again at manufacturing levels. This passing around of inventory accumulation is a usual prelude to general inventory liquidation.

* * *

COPPER — one price that has been hard hit in recent weeks. In some degree the weakening of copper demand hit suppliers as a surprise. In an electronic age, and particularly an age of military electronics, the superb electrical characteristics of copper would suggest that it would be on the critical list, rather than on the super-abundant list. The answer to the change in copper's situation is the same

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1956 IV Quarter	1956 III Quarter	1956 II Quarter	1955 IV Quarter
GROSS NATIONAL PRODUCT	423.8	413.8	408.3	401.9
Personal Consumption	270.9	266.8	263.7	259.5
Private Domestic Invest.	68.5	65.1	64.2	65.1
Net Foreign Investment	2.4	1.7	1.7	—0.8
Government Purchases	82.0	80.2	78.7	78.1
Federal	48.3	47.2	46.1	47.2
State & Local	33.7	33.0	32.6	30.9
PERSONAL INCOME	333.2	327.0	322.9	314.6
Tax & Nontax Payments	39.9	38.8	38.1	36.3
Disposable Income	293.3	288.2	284.9	278.4
Consumption Expenditures	270.9	266.8	263.7	259.5
Personal Saving—d	22.4	21.4	21.2	18.8
CORPORATE PRE-TAX PROFITS*	na	41.2	42.9	46.4
Corporate Taxes	na	20.8	21.7	23.4
Corporate Net Profit	na	20.4	21.3	23.0
Dividend Payments	na	12.3	12.2	12.1
Retained Earnings	na	8.1	9.1	10.9
PLANT & EQUIPMENT OUTLAYS	37.3	35.9	34.5	31.5

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Feb. 9	295.7	297.0	287.9
MWS Index—per capita*	1935-'9-100	Feb. 9	226.8	227.8	224.0
Steel Production	% of Capacity	Feb. 16	96.5	97.1	98.8
Auto Production	Thousands	Feb. 16	181	180	159
Paperboard Production	Thousand Tons	Feb. 9	283	277	284
Lumber Production	Thous. Board Ft.	Feb. 9	226	182	246
Electric Power Output*	1947-'49-100	Feb. 9	226.7	230.4	213.1
Freight Carloadings	Thousand Cars	Feb. 9	665	648	684
Engineering Constr. Awards	$ Millions	Feb. 14	312	429	268
Department Store Sales	1947-'9-100	Feb. 9	102	94	97
Demand Deposits—c	$ Billions	Feb. 6	56.9	58.1	57.0
Business Failures	Number	Feb. 7	287	320	236

PRESENT POSITION AND OUTLOOK

old story: at 46 cents, the price which prime copper commanded only a year ago, it was very profitable to produce it. So it was produced, in increasing quantities even by those companies who claimed to be operating at capacity. **Copper production is now on the way down — toward a sustainable level where buyer and seller can clear the market at a price agreeable to both.**

* * *

CONSTRUCTION — the criss-cross trends in this industrial giant mirror the double character of 1957 as a whole. In private construction, contracts are lagging, and builders and suppliers in the private part of the industry are fretting. (Some are worse than fretting; failures in the construction industry have turned up sharply). But the big stuff—roads, schools, bridges, sewage facilities—is doing fine. Contracts by government agencies are still pouring into construction offices at a great rate, and backlogs on the massive steel fabrications required for this work are still long. Recently, aluminum extruders have been caught in the slide of residential building, and price cutting broke out with a vengeance at the same time that steel-makers were raising their prices on big steel items. **This private weakness and public strength is one of the basic aspects of 1957 business.**

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge, for 37 states. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau. (na)—Not available. (r)—Revised. (l)—First Quarter.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1956-'57 Range High	1956-'57 Range Low	1957 Feb. 8	1957 Feb. 15
300 Combined Average	352.4	315.9	322.3	323.0
4 Agricultural Implements	327.1	242.1	257.9	263.4
3 Air Cond. ('53 Cl.—100)	119.4	98.8	110.2	110.2
9 Aircraft ('27 Cl.—100)	1423.5	1064.6	1266.9	1295.4
7 Airlines ('27 Cl.—100)	1117.4	832.1	832.1	852.1
4 Aluminum ('53 Cl.—100)	566.7	337.1	375.8	392.7
6 Amusements	172.3	144.1	151.8	153.3
9 Automobile Accessories	373.7	334.5	341.7	348.8
6 Automobiles	52.2	47.1	47.6	48.1
4 Baking ('26 Cl.—100)	28.7	25.5	26.8	27.6
3 Business Machines	1171.3	831.5	966.5	966.5
6 Chemicals	652.3	556.5	556.5	562.5
4 Coal Mining	25.1	19.2	23.9	22.8
4 Communications	114.3	93.4	94.5	95.5
9 Construction	140.0	112.3	118.1	119.3
7 Containers	853.7	731.7	739.5	754.6
7 Copper Mining	361.3	265.0	265.0	271.1
2 Dairy Products	122.3	105.9	105.9	105.9
6 Department Stores	93.7	80.1	81.7	80.9
5 Drugs-Eth. ('53 Cl.—100)	198.3	165.0	175.2	177.0
6 Elec. Eqp. ('53 Cl.—100)	228.6	178.9	215.0	217.2
2 Finance Companies	613.7	525.5	525.5	546.9
6 Food Brands	306.1	264.0	266.7	264.0L
3 Food Stores	176.9	153.8	153.8	153.8

(Nov. 14, 1936 Cl.—100)	High	Low	1957 Feb. 8	1957 Feb. 15
100 High Priced Stocks	244.6	209.2	215.8	217.0
100 Low Priced Stocks	415.8	378.9	389.5	389.1
4 Gold Mining	882.7	637.9	673.4	653.6
4 Investment Trusts	173.1	150.8	166.7	168.3
3 Liquor ('27 Cl.—100)	1076.2	954.4	975.1	965.2
9 Machinery	523.4	370.4	477.2	487.4
3 Mail Order	217.3	162.6	162.6	166.1
4 Meat Packing	170.7	127.7	130.0	130.0
5 Metal Fabr. ('53 Cl.—100)	213.2	175.4	175.4	177.4
10 Metals, Miscellaneous	464.9	383.1	388.5	384.5
4 Paper	1312.3	976.9	987.3	976.9L
22 Petroleum	872.3	675.8	749.7	757.9
21 Public Utilities	264.0	246.4	253.8	251.3
7 Railroad Equipment	95.1	84.3	84.4	84.4
20 Railroads	82.0	66.4	67.1	66.4L
3 Soft Drinks	544.8	423.1	454.1	454.1
12 Steel & Iron	393.0	283.8	334.1	341.9
4 Sugar	107.4	60.1	99.8	101.7
2 Sulphur	950.2	758.4	815.4	832.2
11 Television ('27 Cl.—100)	44.5	32.3	32.9	32.3L
5 Textiles	184.4	126.1	128.9	126.1L
3 Tires & Rubber	201.0	167.8	167.8	167.8
5 Tobacco	96.7	85.3	87.9	87.0
2 Variety Stores	298.8	258.2	265.9	258.2
15 Unclassif'd ('49 Cl.—100)	164.2	144.8	153.8	155.3

L—New Low for 1956-1957

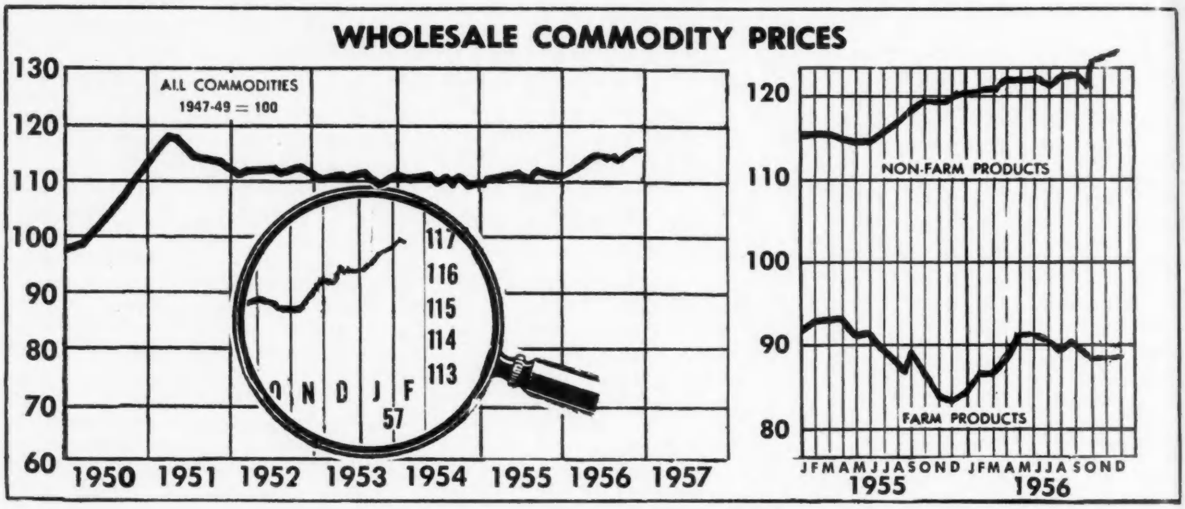
Trend of Commodities

SPOT MARKETS — Sensitive commodity prices in the first half of February, continued the decline which is now in its third month. In the two weeks ending February 14, the Bureau of Labor Statistics' index of 22 leading commodities lost 1.5%, to close at 88.9, lowest level reached by this indicator since early August, 1956. In fact, this index today, is not far from lows of the past two years. This is in sharp contrast to the steady rise, during the same period, of comprehensive but less sensitive commodity price indexes.

In the latest period, comprising the first two weeks of February, all the major components of the 22 commodity daily price index, were lower. Raw industrial materials lost 1.7%, while metals fell 3.0%. Raw foods were down 1.4% and textiles gave up 0.7%.

FUTURES MARKETS — After a further dip early in February, most futures markets steadied in ensuing trading. In the two weeks ending February 15, the Dow-Jones Commodity Futures Index lost 0.74 points, to close at 157.62, not far from lows of the past eight months. Markets failed to show much rallying power, with large supplies in evidence.

May wheat added 1 cent in the two weeks ending February 15 to close at 231¾. A return of dry weather to the Southwest, after several weeks of moisture, brought buyers into the market. A good deal of wheat acreage is being placed in the "soil bank" but this, of course, is less productive land. The loan program, however, has not garnered as much wheat as formerly and it appears that this season's supply of "free wheat" will be adequate for all needs.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Feb. 12	117.0	116.9	112.4	60.2
Farm Products	Feb. 12	88.8	89.4	86.0	51.0
Non-Farm Products	Feb. 12	125.4	125.2	120.6	67.0
22 Basic Commodities	Feb. 14	88.9	90.3	88.4	53.0
9 Foods	Feb. 14	80.9	82.1	75.1	46.5
13 Raw Ind'l. Materials	Feb. 14	94.7	96.3	98.9	58.3
5 Metals	Feb. 14	112.8	116.0	124.1	54.6
4 Textiles	Feb. 14	84.2	84.8	81.7	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS
1923-1925 AVERAGE—100

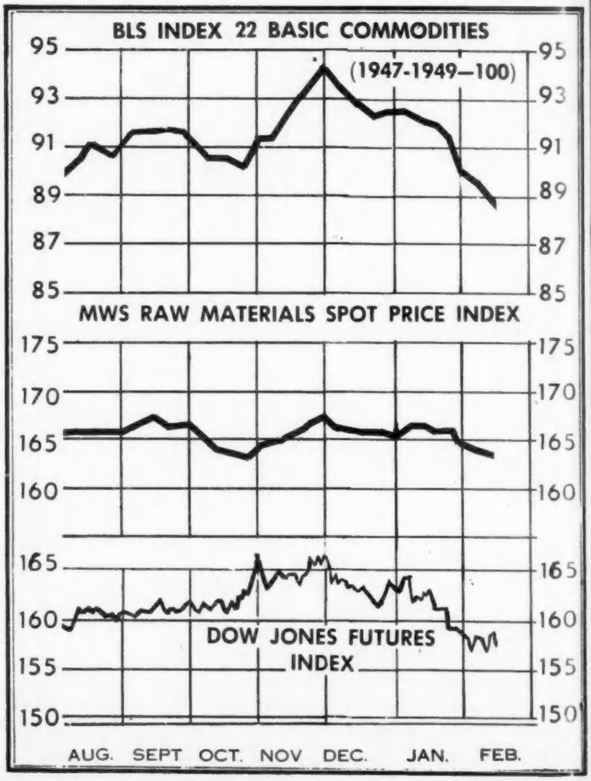
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

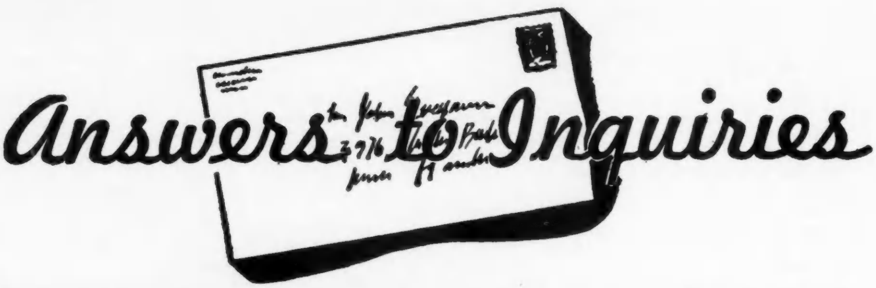
	1956	1955	1953	1951	1945	1941
High of Year	169.8	164.7	162.2	215.4	98.9	85.7
Low of Year	163.1	153.6	147.9	176.4	96.7	74.3
Close of Year	165.5	164.7	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES
AVERAGE 1924-1926—100

	1956	1955	1953	1951	1945	1941
High of Year	166.7	173.6	166.5	214.5	106.4	84.6
Low of Year	149.8	150.7	153.8	174.8	93.9	55.5
Close of Year	162.7	153.1	166.8	189.4	105.9	84.1





Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. **Give all necessary facts, but brief.**
2. **Confine your requests to *three listed securities* at reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.**
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

Joy Manufacturing Company

"How has the improvement in the coal industry affected operations of Joy Manufacturing? Please supply recent data." L. A., *Miami Beach, Fla.*

Joy Mfg. Company is the leading manufacturer of coal mining machinery and other equipment used in mining. The demand for labor-saving machinery has increased with improving operations in the coal mining industry. In order to facilitate operations, a decentralized-six-divisional management organization was put into effect throughout the company October 1, 1956. These divisions are the Coal Machinery Division, the Mining & Construction Division, the Industrial Division, the Baash-Ross Tool Company Division, the Dallas Oil Field Drill Division and the Electrical Products Division. Each of the six divisions is completely responsible for engineering, manufacturing, sales and profits.

Sales for the fiscal year ended September 30, 1956 were $121,131,000, the highest in the company's history and this reflects an increase of 48% over sales of $81,912,000 for the preceding year.

Net earnings for the fiscal year were $10,913,481, equal to $6.10 per share on the 1,787,908 shares of common stock outstanding at September 30, 1956. This is an increase of 92% over net earnings of $5,682,502, for the previous year, which was equal to $3.18 per share after adjustment for the 100% stock distribution in December, 1955. Net earnings for 1956 were equal to 9% of sales sompared with 7% in 1955.

Dividends paid during 1956 including extra, totaled $2.80 per share. Latest quarterly dividend was 60 cents per share.

The shareholders equity at September 30, 1956 was $30.53 per share.

Provisions for depreciation and amortization totaled $2,132,000 for the year 1956, compared with $1,710,000 in 1955. This includes depreciation on certain assets computed at "straight-line" rate, depreciation on other assets acquired since January 1, 1954 computed on the "declining balance" method at double the "straight-line" rate and "accelerated amortization" on assets for which Necessity Certificates have been issued.

Sales of unconsolidated foreign subsidiaries increased to a record high of $19,820,000 in fiscal 1956. Net earnings of foreign subsidiaries totaled $1,230,000 in fiscal 1956 compared with $684,000 in 1955.

In fiscal 1956, $476,253 of foreign profits, engineering fees, and interest were remitted to the parent company compared with $312,800 in 1955.

A capital investment of $4,943,000 was made in fiscal 1956 for new plant construction, expansion of existing plant areas, and the installation of additional modern machine tools for greater manufacturing efficiency.

On January 17, 1957, stockholders voted to increase authorized $1.00 par common from 3,000,000 to 6,000,000 shares to provide for future acquisitions, of which there are two currently under consideration. Stockholders also voted to reserve 135,000 common shares for options to executives at 95% of market value on date granted.

For the three months to December 31, 1956, net sales were $31,785,196, net profit $3,026,109, equivalent to $1.69 per share, compared with same quarter in preceding year when net sales amounted to $24,863,272, net profit $2,271,298, equal to $1.27 per share.

The demand for labor-saving machinery in the coal and other mining industries is expected to continue good over coming months.

American Can Company

"Please submit recent earnings of American Can Co. and also mention recent acquisitions and foreign operations of the company and prospects over coming months." B. M., *Sandusky, Ohio*

American Can Co. is a leading can maker and also manufacturer of metal and composite fibre and metal containers for packaging of foods and other commodities.

While American Can Co. sales and rentals reached a new high in 1956, earnings did not keep pace with sales and this was because of the inability to recover all increases in costs of materials and labor. However, new price schedules of the company made effective last November 1 are calculated to improve this situation

(*Please turn to page* 734)

CREDIT

Keystone of Our Expanding Economy

Our dynamic use of Credit makes it the very keystone of America's remarkable corporate and individual progress. And Credit is more than an integral part of our great American economy; it is proof positive of America's faith in itself and its future. Associates is proud to share in this faith.

From a small beginning 38 years ago, Associates has forged ahead to where today it is one of America's most important sources of Credit—having provided over $1¼ BILLION last year to the automotive industry alone, for retail installment purchases and dealer wholesale financing. In addition, Associates annually provides hundreds of millions of dollars to American industry, and to individuals for family needs. With assets of over 900 million dollars, Associates continues to look ahead, proud of its important part in supplying America the credit so vital to our expanding economy.

ASSOCIATES 1956 FINANCIAL REPORT

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	Dec. 31, 1956	Dec. 31, 1955
Cash and Marketable Securities	$ 90,150,167	$ 85,724,980
Receivables:		
Retail motor vehicle installment receivables	$700,367,608	$649,982,667
Wholesale motor vehicle short-term loans	72,102,682	81,398,810
Direct and personal installment loans	62,836,287	48,481,888
Commercial and other receivables	40,278,730	35,362,536
	$875,585,307	$815,225,901
Less: Unearned discounts	54,429,155	49,347,481
Reserve for losses	22,314,277	18,833,110
Total receivables, net	$798,841,875	$747,045,310
Other Assets	16,038,965	12,444,059
	$905,031,007	$845,214,349

LIABILITIES

	Dec. 31, 1956	Dec. 31, 1955
Notes Payable, short-term	$436,556,800	$424,290,800
Term Notes due within one year	28,021,000	34,720,000
Common Stock Dividend payable January 2, 1957	2,031,557	1,875,283
Accounts Payable, Accruals and Reserves	37,481,065	38,161,383
Unearned Insurance Premiums	29,227,061	30,156,749
Long-Term Notes	132,300,000	142,565,000
Subordinated Long-term Notes	65,600,000	60,500,000
Preferred Stock	22,500,000	22,500,000
Common Stock	31,254,720	31,254,720
Surplus	70,058,804	59,190,414
	$905,031,007	$845,214,349

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Year Ended Dec. 31, 1956	Dec. 31, 1955
Discount, interest, premiums and other income	$122,457,993	$109,907,061
Operating expenses	86,919,697	73,552,926
Net income before Federal income tax	$ 35,538,296	$ 36,354,135
Provision for Federal income tax	16,030,000	17,350,000
Net income	$ 19,508,296	$ 19,004,135
Consolidated net earnings per share of common stock after payment of preferred dividends	$5.93	$5.86

Associates

Commercial and Installment Financing

ASSOCIATES INVESTMENT COMPANY
ASSOCIATES DISCOUNT CORPORATION
and Other Subsidiaries
HOME OFFICE • SOUTH BEND, INDIANA

Realistic New Appraisal of Food Processors and Merchandisers

(*Continued from page* 696)

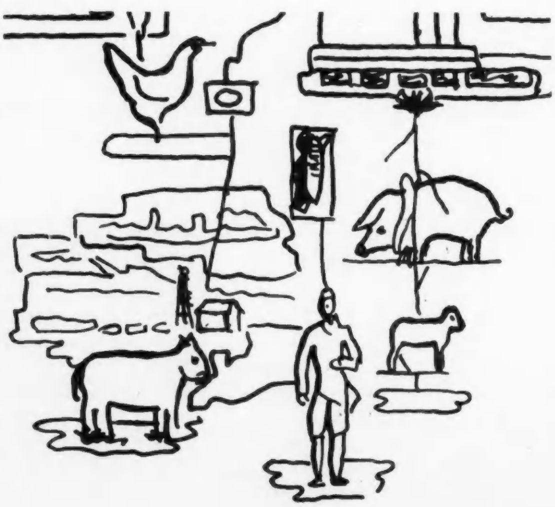
ably 15 per cent. Labor costs have been squeezed down to about 18 per cent of sales.

Borden appears to have achieved considerable progress in its chemical division and, as a result, Borden has become one of the leading producers of formaldehyde. Emphasis has been placed on product research and introduction of food items that can be distributed through grocery outlets in conjunction with milk. Fluid milk sales still account for some 39 or 40 per cent of volume, but the ratio is expected to decline. Ice cream makes up an additional 16 per cent and manufactured foods contribute about 15 per cent. Cheese business accounts for only about 9 per cent.

Research plays an important part with many concerns in expanding sales. General Foods, for example, has stressed this phase of operations for many years. Management's aim is to be able to introduce new items to the trade at a rate that will more than counteract declines in volume of other lines as consumer tastes change. Research persuaded the management to introduce cake mixes and several new types of desserts. Records indicate that enlargement of volume in recent years traces in large part to successful development of packaged foods. The company's leading sales item continues to be Maxwell House coffee. Rapid acceptance of soluble coffee has led to expansion of facilities in several parts of the country. Net profit for the fiscal year ending this month is expected to range moderately higher than the $3.31 a share of 1956.

Among other companies in diversified activities with considerable dependence on foods is United Fruit, which ranks as the world's foremost producer and distributor of bananas. The company also produces sugar in Cuba and operates a large refinery in the Boston area. Other crops include cocoa and palm oil. In addition, an extensive fleet of transports is operated, linking Atlantic coastal ports with Central America. Adverse weather conditions contributed to disappointing results last year, but the current outlook has been improved by a stronger demand for sugar.

Introduction of modern baking and processing equipment in recent years has enabled National Biscuit to improve operating results. Diversification into such lines as cake mixes, cereals, pet foods as well as bread and cake has added a stabilizing influence to sales. More satisfactory labor costs are expected to widen profit margins this year. Capital outlays in 1956 were approximately $15.7 million and are expected to rise to $20 million this year.



An almost spectacular expansion in grocery merchandising through establishment of self-service supermarket chains has made progress possible in food processing, for much of the achievement in developing new products and in packaging research has been aimed at the supermarket trade. Growth in frozen food sales scarcely could have been stimulated to the extent already reached had not attractive displays been introduced by progressive chain merchants. It is little wonder then that grocery operators have concentrated on replacement of small "one-man" outlets with modern self-service markets, where merchandise turnover can be increased tremendously.

Keener Competition Among Food Markets

The most successful ventures in this direction have developed in recent years as comparatively new concerns have opened markets in promising suburban areas. Longer established chains—such as the Great Atlantic & Pacific, Safeway, Kroger and American Stores—have had to adjust their activities gradually by opening markets in neighborhoods where older and less efficient units can be replaced. Such a process is more expensive and less easily accomplished. Food Fair has specialized in supermarkets, first in metropolitan areas in New Jersey and later in Florida, rapidly attaining competitive advantages and better-than-average margins.

Competition among major chains has intensified in the last two or three years as the trend toward shopping centers gained momentum. Strategic locations near growing suburbs attracted new stores. Such ventures often were undertaken more rapidly than economic conditions at the moment justified. As a result, not all have proved as successful as could have been hoped.

The struggle for volume necessitated by rapid expansion invited resort to trading stamps. This fad spread quickly to all sections of the country. Nearly every type of supermarket operated by chains (with few exceptions) adopted one plan or another. Atlantic & Pacific as well as Safeway declined to go along on stamp plans, but the latter introduced a sales slip premium plan. Use of sales gimmicks, together with keen price competition, contributed to narrowing of profit margins in the last year. All indications point to some downtrend in earnings of leading grocery chains unless the introduction of non-food lines can counteract restrictive influences. Several chains have stepped up plans for selling a variety of small merchandise ordinarily distributed in other stores—such as toys and household articles usually purchased by the housewife. Only time will tell whether this development will be of much help in bolstering profits in this industry. END

Facts and Figures

FROM THE 1956

ANNUAL REPORT

CONTINENTAL MOTORS · Powerful as the Nation · AMERICA'S STANDARD ®

HIGHLIGHTS

- In the fiscal year ended October 31, 1956, Continental Motors Corporation and consolidated subsidiaries, Wisconsin Motor Corporation and Gray Marine Motor Company, had net sales of $125,116,269, as compared with $145,465,155 in 1955.

- Net earnings for the year were $.49 per common share as against $.76 a share the previous year.

- Curtailment of steel to Continental's manufacturing customers resulted in slowed engine delivery schedules for a time during and after the nationwide steel strike. First quarter earnings were $.07 a share. Second quarter earnings doubled—to $.14 a share.

- Continental Motors' own earnings in the third quarter of 1956 were above those for the previous period. However, the Wisconsin Motor strike, starting in the first week of the third quarter and lasting into the fourth, resulted in a $9,260 deficit for the corporation as a whole.

- Fourth quarter consolidated earnings rose to $.28 a share, as compared with $.21 for the first three quarters combined.

- Biggest source of business in sight for 1957 is related to the mammoth highway building program approved by Congress last summer, calling for $100 billion in new roads over the next 13 years. As a supplier of engines to leading manufacturers of road building machinery and related equipment, Continental expects substantial business from this source.

- Military Division will continue to produce at profitable volume through 1957, subject of course to unforeseen changes in the defense policy.

- Research and Development Division in Detroit is now staffed and equipped to make major contributions to the company's products and profits.

- The upturn in rural income evident late in 1956, after a prolonged slide, is among the more hopeful signs for the new fiscal year. It will be felt in the sales of irrigation engines, as well as of power plants for manufacturing customers serving the farm field.

- As for some years past, there are more Gray Marine engines than any other make, in the inboard craft displayed at this year's boat shows.

- The Continental MA-1A starter unit, improved version of the MA-1, will shortly be in production at CAE's Toledo plant, under Air Force contract. CAE's move of turbine production departments to Toledo is now virtually complete. Higher efficiency will result.

- Continental Motors and its consolidated subsidiaries had a backlog of unfilled orders amounting to $80 million on Jan. 1, 1957.

STATISTICS

Fiscal Years Ended Oct. 31	1956	1955	1954	1953	1952
Engine output (horsepower)	10,783,043	13,876,317	14,659,577	23,073,000	21,390,000
Net sales	$125,116,269	$145,465,155	$182,061,693	$298,438,605	$264,219,009
Net earnings	$1,604,924	$2,502,287	$4,542,748	$6,023,812	$6,126,021
Net earnings per common share	$0.49	$0.76	$1.38	$1.83	$1.85
Dividends per share	$0.25	$0.70	$0.80	$0.80	$0.60
Current assets	$59,262,735	$58,115,700	$67,362,396	$104,895,088	$106,074,697
Current liabilities	$28,304,638	$27,553,219	$35,667,076	$72,618,572	$76,692,367
Net working capital	$30,958,097	$30,562,481	$31,695,320	$32,276,516	$29,382,330
Ratio of current assets to current liabilities	2.1 to 1	2.1 to 1	1.9 to 1	1.4 to 1	1.4 to 1
Long-term debt	$2,760,000	$3,040,000	$3,320,000	$3,600,000	$3,880,000
Property, plants and equipment (net)	$16,547,581	$17,219,239	$16,654,419	$14,085,545	$13,573,156
Stockholders' equity	$45,129,523	$44,349,599	$44,157,312	$42,254,564	$38,870,752
Book value per common share	$13.68	$13.44	$13.38	$12.80	$11.78

Continental Motors Corporation
MUSKEGON, MICHIGAN

Professional Methods For Protecting Capital — Investment Insurance

(*Continued from page* 702)

contract. If, on the other hand, the market price of the stock goes into reverse, dropping below the price at which he sold his 100 shares, he can repurchase his stock in the market at the more favorable level, and allow his "call" option to expire without further cost or penalty to him. In the interim, before repurchase, he has had available the proceeds from the sale of his "long" stock.

The use of "call" options may also be advantageous in averaging the cost of "long" stock bought at a higher price than currently prevailing. Let us suppose that an investor is "long" of 100 shares of a stock bought at 35 and which has fallen to a price of 22. A decline of this magnitude may have either shaken the investor's confidence, or it may have come at a time when funds are not readily available to acquire another 100 shares at the lower price to average his cost. In such a case, the investor might purchase a "call" option, when the stock is selling at 22. It may be stated that options, whether "put" or "call", usually carry a contract price not far away from the prevailing market price at the time that they are purchased. Let us assume, in this case, that the contract price in the "call", which the investor has purchased, is 25. If and when the stock recovers to 30, he is in a position to exercise his "call" (call in the stock) on 100 shares, and, if he so chooses, to sell both the original 100 shares of "long" stock and the 100 shares of "called" stock at an approximate break-even—in other words, eliminate his original loss.

"Call" options are also often used by speculators, in lieu of making actual purchases of stock in the market. For instance, a speculator may believe that a particular issue is about to advance in price. However, his funds may be impaired or he may be reluctant to risk the amount of capital required to make an outright or marginal purchase. An experienced speculator would then resort to buying a "call" on the stock. If the stock rises in price as he expected, he has a right to call for the stock or have it delivered to his broker and thereafter sell it in the open market. If, however, the expected rise does not take place, during the life of the option contract or "call", the cost of the operation is no more than the price paid for the "call".

How a "Put" Works

A "put" option works in the direction opposite to that of a "call". A "put" contract gives the holder the right to sell or deliver a specified number of shares of a stock, at the price and during the period of time written in the contract.

Let us return to the first hypothetical case of the investor who purchased 100 shares of XYZ at 42, with the stock currently selling at 59. In this illustration, *let us suppose that he does not sell his "long" stock in the market,* but feels the need of protecting himself against a possible decline in price, so as to preserve his profit. Having come to this conclusion, he may purchase a "put" option for 100 shares, for 30 days or longer. In the event that the stock drops substantially below 59, within the period of time or life of the "put", he has the right to exercise his "put" and deliver the stock at the higher price specified in the option. In other words, he thus delivers or sells his 100 shares of "long" stock at not far from the 59 price prevailing when he bought the "put". However, if the stock advances higher than 59, instead of declining, he can disregard his "put" with no further cost.

Just as a "call" can be used to protect or average a "long" position, or in lieu of purchasing a stock, so can a "put" be used in a "short" position. This time, the procedure is in reverse, in each illustration.

Short Sales

It may be well to review briefly the nature of a "short" sale, so that the uses of a "put" for this purpose can be kept in mind. When a speculator or trader sells "short", he has sold a stock through a broker which he does not own at the time of sale, but must purchase some time later in order to make final delivery. The broker arranges temporary delivery by borrowing the stock from an owner. Thus, the speculator or trader has assumed a position, which is quite the opposite of a buyer of "long" stock. In a "short" sale, he expects the stock to decline in price. If and when it does decline, he may take his profit by "covering' or buying in the stock for the purpose of final delivery on his sale and thus closing the transaction.

Finally, if a speculator or trader is "short" of a stock and later realizes a profit, regardless of whether it is less or more than 6 months, he must pay an income tax on the profit at the full rate of his personal tax bracket. Even though the transaction was longer than 6 months, he can not claim the long-term capital gain privilege of a 25% tax. However, if he has purchased a "put", instead of selling the stock "short", and if the "put" contract runs for more than 6 months and the stock declines, he can claim the 25% long-term capital gain benefit by taking his profit through sale of the actual "put" contract, which is then valuable, to another party. This is not the case if he exercises the "put" in the regular way. END

For Profit and Income

(*Continued from page* 707)

Growth Stocks

From highs to recent lows there were some big markdowns in previously favored "growth" stocks. A few examples: Alcoa 35%, Dow Chemical 30%, Owens-Corning 40%, Food Fair 42%, Monsanto Chemical 40%. Declines in some others, however, ranged from less than to only moderately more than the industrial average. Some examples, with approximate percentage fall: Sunbeam Corp. 8%, Thompson Products 12%, Air Reduction 10%, Halliburton 13%, Diamond Alkali 14%, Outboard Marine 14%, Pfizer 15%, Eastman Kodak 16%, McGraw-Hill 18%. Among the most reasonably priced in relation to present indicated annual earning power are: Air Reduction, Thompson Products (now at 75 and in line for a 1957 profit gain of as much as 50% to the vicinity of $7 a share), Outboard, Pfizer and McGraw-Hill. END

UNION CARBIDE

UNION CARBIDE AND CARBON CORPORATION

1956 Annual Report Summary

	1956(1)	1955(2)
Sales	$1,324,506,774	$1,230,554,556
Net Income	146,233,444	145,834,416
Per Share	4.86	4.86
Dividends Paid (3)	91,956,493	87,206,032
Per Share (3)	3.15	3.00
Earned Surplus	580,097,003	528,088,998
Current Assets	$ 715,406,189	$ 691,500,489
Current Liabilities	237,656,800	237,272,875
Total Assets	1,459,748,536	1,404,460,065
Shares Outstanding	30,088,510	29,126,619 (4)
Number of Stockholders (5)	118,391	114,310
Number of Employees	79,000	76,000

(1) Operations of The Visking Corporation (acquired by Union Carbide on December 31, 1956) are consolidated.

(2) Operations of The Visking Corporation are combined with the exception of intercompany sales, which have been eliminated.

(3) Excludes dividends paid by The Visking Corporation to its stockholders.

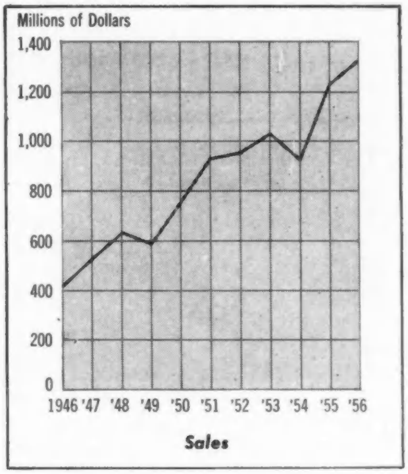
(4) Excludes 864,449 shares issued for net assets of The Visking Corporation on December 31, 1956.

(5) Excludes stockholders of The Visking Corporation.

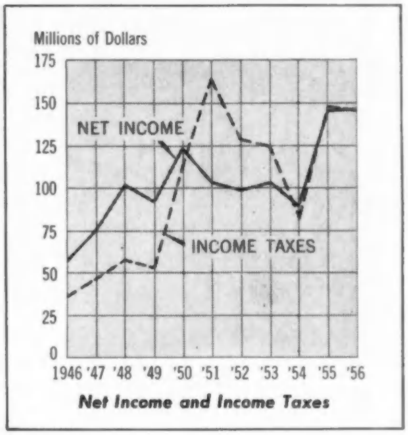
Copies of the complete 1956 Annual Report of Union Carbide and Carbon Corporation will be furnished on request. Also available is an illustrated booklet that describes the products and processes of Union Carbide. If you wish copies of these booklets, please write to the Secretary, Union Carbide and Carbon Corporation, 30 East 42nd Street, New York 17, N. Y.

UCC's Trade-marked Products include

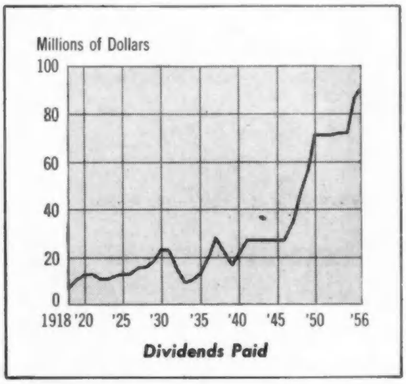
ELECTROMET Alloys and Metals • CRAG Agricultural Chemicals • EVEREADY Flashlights and Batteries • UNION CARBIDE Silicones • PREST-O-LITE Acetylene • SYNTHETIC ORGANIC CHEMICALS • PRESTONE Anti-Freeze • HAYNES STELLITE Alloys • LINDE Oxygen Dynel Textile Fibers • BAKELITE, VINYLITE, and KRENE Plastics • NATIONAL Carbons UNION Calcium Carbide • PYROFAX Gas



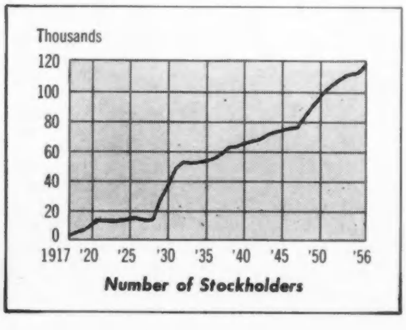
Sales



Net Income and Income Taxes



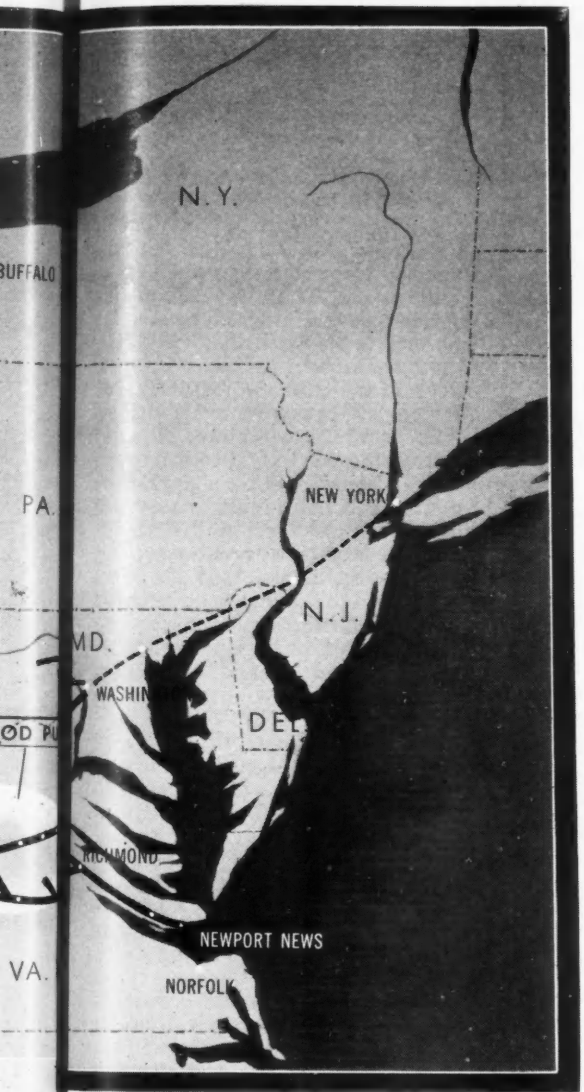
Dividends Paid



Number of Stockholders

WISC.
MICH.
CANADA
CHEMICALS
AND
CHEMICALS
BUFFALO
MILWAUKEE
TRAINFERRIES
PORT HURON
SARNIA
GRAND RAPIDS
CHICAGO
AUTOMOBILES
CLEVELAND
TOLEDO
PA.
OHIO
METALS AND
CHEMICALS
COLUMBUS
GLASS
ILL.
W. VA.
IND.
CINCINNATI
HUNTINGTON
CHARLESTON
ASHLAND
LOUISVILLE
WHITE SULPHUR
SPRINGS
VA.
WORLD'S RICHEST
COAL BIN

One of a series telling what Chesapeake and Ohio is doing to make this a bigger, better railroad.



Nearly half of America's overseas export coal goes through the C&O port of Newport News, Virginia. An $8 million bulk cargo pier capable of handling more than 8 million tons of import ore a year will begin operation this Spring.

CHESSIELAND

One of the reasons Chessie's railroad is growing so fast is that it serves a fast-growing industrial empire. Its eastern terminus is on Hampton Roads, Virginia, the country's second busiest harbor. From there it reaches west to Chicago, and to Ludington, Mich. where its Trainferries form a time-saving short cut between the Northwest and the East.

Halfway between, it passes through the world's richest coal bin, now producing at top speed to meet ever-increasing demand, from abroad as well as at home. *Mines on the C&O have had a full coal car supply to move this vast tonnage to market.*

It serves the booming chemical and metallurgical districts of the Kanawha and Ohio River valleys, the varied industries of Ohio and Indiana; the automotive region radiating from Detroit; and fast-growing Southern Ontario.

C&O's expansion program is continuing. Of major importance to its shipping customers this year are 9000 new freight cars to cost $70 million. Chessie's railroad is growing and going to meet the ever-increasing service needs of its territory.

Would you like the new brochure describing industrial resources and opportunities in C&O territory? Address:

Chesapeake and Ohio Railway

3807 TERMINAL TOWER, CLEVELAND 1, OHIO

Venezuela-United States Trade At A New High

(In Millions of Dollars)

	12 mos. 1950	12 mos. 1954	12 mos. 1955	9 mos. 1956
U. S. EXPORTS TO VENEZUELA:				
Foodstuffs	72	62	71	44
Dairy pdts., incl. eggs	28	24	28	15
Textiles	38	38	27	17
Cotton mfgs.	16	19	14	9
Wood & paper pdts.	11	19	21	14
Metals & manufactures	41	57	67	58
Machinery & vehicles	147	251	263	196
Electrical equipment	26	40	38	36
Industrial machinery	46	91	98	84
Automobiles & parts	55	88	101	72
Chemicals & drugs	30	38	40	26
All others	60	69	67	100
Total	399	534	556	455
U. S. IMPORTS FROM VENEZUELA:				
Crude petroleum & pdts.	290	415	491	366
Iron ore	.....	36	45	47
Coffee	18	35	31	21
Cocoa	8	13	9	6
All others	5	4	6	13
Total	321	503	582	453

Source: Dept. of Commerce

Dynamic Venezuela

(*Continued from page* 693)

money is, of course being spent for productive projects, or for badly needed public works, or for education. Some of it has gone for the beautification of Caracas and for the building of luxurious "officers' clubs". Some of it is also going for such dubious projects as the unification of the Venezuelan railway system, Government tourist hotels, etc. But the fact remains that "investment spending" by the Government, planned at an annual rate of almost $500 million for the current fiscal year, plus extensive private building activity, has made construction today by far the most important industry in the country. In 1955, the per capita consumption of cement stood at 480 lbs., almost as much as in Great Britain.

Among the projects recently completed or under construction is the growing network of modern expressways – often passing through towns with no potable water, sewers, telephones, or hospitals – the University City in Caracas, and the Guarico irrigation project in the Llanos, the semi-arid plain in the central part of the country. By water control and the use of chemicals, the Venezuelans hope to turn some 250,000 acres of marginal land into rich grazing land, which will make possible the regeneration of the Venezuelan cattle and meat industry, once an important exporter.

Despite extensive help given by various State organizations, Venezuelan agriculture still suffers from low productivity and high transportation costs. Through subsidies and other forms of aid, however, the Government has succeeded in greatly expanding sugar, rice, manioc, and cotton production.

Of the three large industrial projects financed by the Government, the hydroelectric project on the Caroni River—near its confluence with the Orinoco—has already been mentioned. The second project involves a steel mill with an ultimate output of about 500,000 tons, to be built for the Venezuelan Government by the Italian Fiat group near the Caroni hydroelectric plant. Coal will be brought from the now abandoned Naricual coal fields close to the northern coast. The third project calls for the utilization of natural gas from the East Venezuela oil fields. Gas will be piped into a complex of petrochemical plants near Moron, located a few miles West of Puerto Cabello on the Caribbean. The products will include fertilizers and plastics.

Industrial Development Problems

As has been shown, Venezuela's economic activities are overwhelmingly influenced by petroleum and ore mining, both highly efficient mechanized industries, able to pay high wages. These very high wage rates paid in the efficient petroleum industry have tended to lift costs in other industries that have generally been less efficient. The result has been that Venezuelan products, both industrial and agricultural, are saleable only in the domestic market and, at that, only because they enjoy high tariff protection.

Generally speaking, two broad groups of industries have managed to overcome the handicap of high costs. The first group includes the building materials industry (cement, bricks) and the manufacture of window frames, doors, furniture, and paints, all of which have profited from the almost continuous boom. Plants processing food and beverages, as well as those making soap, detergents, and containers, have also done well because of the rising purchasing power. The second group of industries that are overcoming high labor costs are those which, for example, manufacture rubber tires or assemble household equipment and cars, and which can count on imported machinery to do most of the work.

All manufacturing that has high labor content, such as the textiles and apparel industries or the making of fine electrical equipment, has to be heavily protected in order to survive competition from American, West European and Japanese goods, which becomes particularly fierce whenever the country's expansion slows down somewhat. At the same time, as long as Government projects continue at present levels, there is little hope that the wages will go down although the rural areas are emptying into the cities and the immigration of skilled Europeans is at a high rate. However, the situation is said to be improving; according to an authoritative study, productivity in all manufacturing industries except petroleum, is said to have increased 60 per cent in the last seven years.

The Exporter's Dream

Because of the steady growth of its market and purchasing power, and because there are no exchange complications the country's currency, the bolivar, being as hard as the dollar – Venezuela is being

(*Please turn to page* 724)

CLARK EQUIPMENT COMPANY

DECEMBER 31, 1956

Condensed Financial Report

The Company has mailed to all shareholders as of February 13, 1957, a preliminary report containing the financial statements for the year ended December 31, 1956. The financial report and operating particulars presented here in condensed form have been prepared by the company from the more detailed financial statements certified by the company's public accountants, Price Waterhouse & Co. Copies of the preliminary report to shareholders are available upon request sent to the Secretary at the home office of the company at Buchanan, Michigan.

CLARK EQUIPMENT COMPANY

President

SALES, INCOME, AND OTHER PARTICULARS FOR THE CALENDAR YEARS 1956 AND 1955

	1956	1955
NET SALES	$145,384,923	$131,252,441
Income before federal income tax	$ 18,401,357	$ 19,285,626
Provision for federal income tax	9,000,000	9,750,000
NET INCOME for the year	$ 9,401,357	$ 9,535,626
DIVIDENDS PAID IN CASH:		
Common stock—$2.125 per share in 1956 and $1.875 per share in 1955	$ 4,829,180	$ 4,197,229
Preferred stock—$5.00 per share	65,126	76,045
TOTAL DIVIDENDS	$ 4,894,306	$ 4,273,274
EARNINGS—per share of common stock outstanding (after dividends paid to preferred shareholders)	$4.11	$4.23

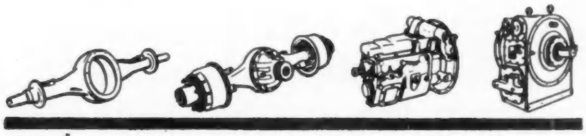
Balance Sheet - December 31, 1956

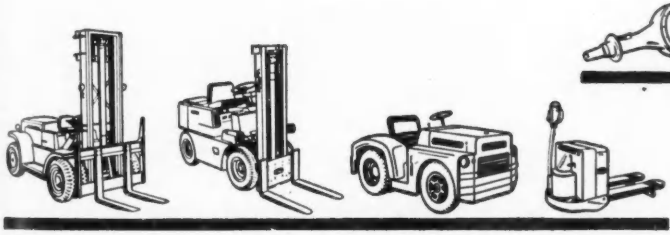
ASSETS

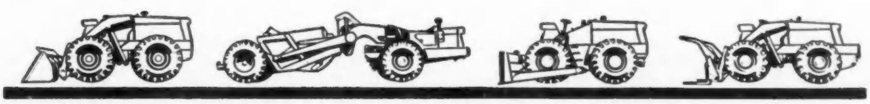
CURRENT ASSETS:		
Cash	$ 10,689,685	
Accounts receivable	16,140,349	
Inventories—at lower of cost or market	43,238,370	
Prepaid expenses	395,862	$ 70,464,266
INVESTMENTS		6,909,262
LAND, BUILDINGS AND EQUIPMENT	$ 44,882,479	
Less—Depreciation	16,739,316	28,143,163
		$105,516,691

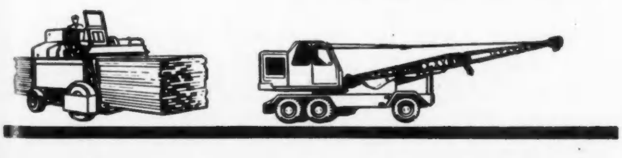
LIABILITIES

CURRENT LIABILITIES		$ 30,712,939
LONG TERM NOTES PAYABLE		21,000,000
CAPITAL STOCK AND RETAINED EARNINGS:		
Preferred 5% cumulative—par value $100 per share (12,934 shares)	$ 1,293,400	
Common—par value $15 per share (2,273,010 shares)	34,095,150	
Earnings retained and used in the business	17,976,295	
Retained earnings of finance subsidiaries not consolidated	465,955	
	$ 53,830,800	
Less—Cost of 1,288 common shares held in treasury	27,048	53,803,752
		$105,516,691









CLARK EQUIPMENT COMPANY
Buchanan, Battle Creek,
Benton Harbor, Jackson, Michigan
St. Thomas, Ontario, Canada

Dynamic Venezuela

(*Continued from page* 722)

eyed by exporters from all over the world. But there are peculiarities. Caracas and the oil field areas with their wealthy middle class tend to spend their incomes on cars, household appliances, and imported foods and textiles. In contrast, the countryside, which is at near-subsistence levels, needs but few imports.

The United States sold last year to Venezuela about $630 million worth of goods, more than to any other Latin American country, Mexico excepted. Our best selling products have been industrial machinery and motor vehicles. In other categories we have had to face either competition from the highly protected domestic products (foods) or from the Europeans, who are just as anxious to earn bolivars as dollars. West Germany has built up her exports from practically nothing to $78 million in 1955, and French, British, Italian, and Japanese trade is also expanding, though less rapidly.

The Country of Optimism

Venezuela is a fine example of a country in which the partnership with outside capital has proved to be eminently successful. There has been no threat of nationalization. On its part, foreign capital has striven to identify itself with Venezuela's interests and has assumed ever-increasing responsibilities for the country's social betterment. Last Fall, for example, the Creole Oil Company, 95 per cent owned by the Standard Oil of New Jersey, set up a Latin Foundation, of which a Venezuelan will be president, to promote education and the arts.

Today everybody in Venezuela is imbued with unbounding optimism about his country's future. Most of this optimism is justified by the past growth of the country, which has been the fastest in Latin America, and by the country's prodigious natural resources. Venezuela has no foreign debt, and its gold and dollar resources are approaching the billion dollar level. This puts them not much below, for example, the current level of French reserves.

The purpose of this article has been to show that despite great natural wealth and opportunities for future growth, problems do exist in Venezuela. There is no guarantee that any business venture will succeed automatically. The limitations of the Venezuelan market and high cost of labor, power, communications, and maintenance must be taken into consideration, even if these negative aspects are far exceeded by the opportunities.

—END

Sound Bonds Yielding 4% or More with Wide Interest Coverage

(*Continued from page* 701)

There is no other area within ninety miles of New York City where so much vacant land is available for industry and dwellings or where there is so much frontage on salt water. There is under construction a new Expressway from Long Island City through Queens, Nassau and Suffolk counties to Riverhead. Completion is scheduled to Old Westbury for late in 1959 and to Riverhead by 1962. It is just the thing Long Island needs the most to develop its territory and this Expressway should attract thousands of new industrial plants and millions of dollars of new construction. Although Long Island is now one of the fastest growing sections in the United States, the next few years promise to exceed previous records. It is well that the construction of the Expressway will be spread over five years, for such a procedure will tend to give the Long Island Lighting Company accrual depreciation and retained earnings to provide a good portion of the capital required to meet the coming broad demand for additional electric and gas service. No single corporation stands to profit so handsomely from the economic benefits of the boom on Long Island than does the Long Island Lighting Company. This bond provides an excellent 4.1% current yield.

California Oregon Power 1st S.F. 3⅛% 11/1/74

California-Oregon Power Company supplies electricity to a population of 229,000 in northern California and southern Oregon. Lumber, fruit and livestock are the principal products of the territory served. Domestic and rural sales of electric current are 51.3% of the total, with commercial load at 21.8% and industrial at 18.6%. The Company is a 100% hydro-electric utility, operating in a very mountainous and beautiful area. The domestic rate is only 1.69¢ per kilowatt hour and the domestic and farm consumption is heavy, since the Company has been featuring the use of electric current for cooking and water heating as well as lighting. There are Government power plants in the area, but they have not interfered with the earnings of the Company. A movement is on foot in the Bureau of Indian Affairs in Washington to disband the Klamath Indian Reservation which, if consummated, would open up land bearing some $8.0 million of timber. Such a step could add to the growth prospects of the Company's territory. Interest coverage on this bond is broad and the yield is attractive.

Columbia Gas Deb. S.F. 3⅞% 4/1/81

The Columbia Gas System is one of the largest of its kind in the world, serving directly a population of 5,000,000 and indirectly an additional 6,000,000. Its load is divided into industrial 17.1%, residential 39.3%, commercial 7.3% and to other utilities 34.2%. Like many other natural gas companies it tries to conserve its own supply, only using 12% from that source, buying the balance of its requirements from others. Available reserves are estimated as sufficient for 25 yrs. but new deposits of gas are continually being prospected. Gas fuel is now the cheapest available in most of the Company's service area. All of the gas companies are pushing the use of their fuel for air conditioning in latitudes where such a comfort is welcome and the cost and efficiency of these machines are being steadily improved. The Columbia Gas debenture 3⅞s due 1981 are a part of a total of $361.0 million outstanding. These rank as senior to $22,451,000 of subordinated convertible 3½% debentures. There is no mortgage debt. The senior debentures are provided with large sinking funds. The

(*Please turn to page* 726)

Sound Bonds Yielding 4% or More with Wide Interest Coverage

(*Continued from page* 724)

natural gas space heating demand is far above the supply of such service and almost every gas company has a big waiting list. All the year around air conditioning is only in its infancy. One prominent manufacturer will shortly introduce a new machine which will not require a water cooling tower and will hence be cheaper, more easily installed and less troublesome to service. Columbia Gas is an important factor in an expanding industry. Interest protection on this issue is good and provides a satisfactory yield.

Whirlpool-Seeger Deb. S.F. 3½% 8/1/80

Whirlpool-Seeger Corporation manufacturers automatic washing machines, dryers, wringers and rotary ironers, home electric refrigerators, freezers and humidifiers, electric and gas ranges. These products are sold by the Company under its own brand name Whirlpool, by Sears, Roebuck & Co. under the trade name Kenmore and Coldspot, and by the Frigidaire division of General Motors. The management has been unusually successful in obtaining excellent operating results in the face of severe competition from General Electric and others. The present company was formed in September 1955 as a consolidation of Whirlpool Corp., Seeger Refrigerator Co. and the stove and air conditioning departments of the Radio Corporation of America. The Whirlpool-Seeger 3½% debentures are due in 1980. $30 million were offered at par in March 1956, along with $42 million of common stock, and despite excellent earnings the debentures have been carried down by the general decline of the bond market to their present level around 90. The Company has ample working capital and its fixed charges are covered by a wide margin. A sinking fund which starts in 1960 is calculated to retire 80% of the issue prior to maturity. Both Sears, Roebuck & Co. and Radio Corporation of America own a substantial portion of Whirlpool's equity securities. Their debentures provide a higher yield than comparable quality industrials.

Great Northern Railway Gen. Mtg. S.F. 4½% 7/1/76

The Great Northern Railway Company's rail transportation system, comprising approximately 8,286 miles, extends from St. Paul and Duluth westward across North Dakota and Montana, into Washington State, serving among other points on the West Coast, Spokane and Seattle, Portland, Oregon and Vancouver, B. C. Jointly with the Northern Pacific Railway it controls the Chicago, Burlington & Quincy whose lines give it entry into Chicago and access to Kansas City, Omaha, St. Louis, New Orleans and other important points. It operates over Southern Pacific tracks to Klamath Falls, Oregon; over Northern Pacific lines between Portland and Seattle and reaches Winnipeg in Canada's province of Manitoba over the right of way of the Canadian National Railway. Great Northern's traffic is well diversified, including heavy movements of iron ore, as well as farm products, lumber and a variety of miscellaneous products of industrial plants that have expanded greatly in number in the road's territory in recent years. Net railway operating income is augmented by dividends on its approximately 48.6% holdings of Chicago, Burlington & Quincy stock. Aside from outstanding equipment obligations Great Northern has only one class of mortgage bonds, of which the 4½'s, 1976, are one of a series outstanding. The road is one of the few major rail systems that has never been in receivership or gone through reorganization and continues to maintain a strong financial position.

Illinois Central Railroad 1st S.F. 3¾% 11/1/84

The Illinois Central Railroad lines cover mid-America from Chicago south to the Gulf, and west to the Missouri River. It is the longest north-south rail system in the United States, operating, for the most part, in the

territory east of the Mississippi River. The line reaches to Birmingham, Biloxi and New Orleans, and west to Shreveport. Over 40% of total tonnage is bituminous coal from Illinois and Kentucky. The Tennessee Valley Authority is an important customer for both its steam and its atomic energy plants. Its export freight business at New Orleans is greater than any other railroad. The consolidated mortgage is now an open 1st lien on 5,945.40 miles of track together with all equipment except marine equipment (subject to equipment trust obligations). The debt amounts to $22,460 per mile for the total of all series of consolidated mortgage bonds. The current yield of 4¼% is attractive and interest is being earned nearly 7 times.

U. S. Bonds
A Promising Investment

In considering an investment in bonds, do not overlook the U. S. Government market. The Treasury 2½s due December 15, 1972/67 are selling at 92 24/32% to yield 3.08%. Since their issue on November 15, 1945 they have sold up to 106.16% in 1946 and down to 87 14/32% in the past few months. While the interest on these bonds is fully taxable by the U. S. Government, it is exempt from State income tax, which in some states is fixed as high as 6%. They offer special advantage for inheritance tax purposes for these bonds are redeemable at par in payment of Federal estate taxes. At their present market $100,000 of Treasury 2½s would provide for a saving of about $7,000 estate taxes, by turning in the bonds in payment at par at death of owner.

The Outlook

In conclusion, the officers of certain corporations have deferred bond issues hoping for a more favorable time to do financing, when interest rates may decline somewhat. On the other hand, the Treasury Department, on February 14, asked Congress for authority to increase the interest rate on new "E" and "H" U. S. Savings Bonds issued on or after February 1, 1957. The Secretary of the Treasury decided to increase the rate because savings bonds sales have been lagging and cash-ins of outstanding bonds have been heavy. This policy suggests that the Government does not expect to importantly alter its rediscount rate in the near future. No one can justly claim to have the ability to pick the bottom of the bond market but specially selected issues have attraction and we have presented a diversified list of quality issues that provide good yields and a wide margin of earnings coverage for interest requirements. —END

CORRECTION

In the statistical table on coal companies in the February 2, 1957 issue, a printer's error transposed 1955 sales, earnings and dividends to the 1956 column while showing the first 9 months of 1956 figures as those for 1955. For instance, Glen Alden Coal actually reported for 1955 net sales of $58.7 million, earnings of 9¢ a share and dividends paid of 40¢ a share. For the full year 1956, Glen Alden informs us that earnings after taxes were between $1.3 and $1.5 million.

Drastic Nickel Shortage Brings In American Companies

(*Continued from page* 699)

An example: The Bell Aircraft X-2 rocket plant (1900 mph) is almost entirely composed of nickel bearing stainless and K-monel (65 per cent nickel). Other areas – Construction and maintenance materials for the atomic energy program, guided missiles and electronics—call for additional quantities of high nickel steels.

Warning: Department of Defense officials warn that while nondefense users should get a fair share of available nickel supplies, any further curtailment of military uses should be stopped. They reason: Any further cutting might hinder research activity which should be seeking out new ways to use nickel bearing metals in military equipment. And expansion of nickel consuming facilities (stainless steel foundries, rolling mills, etc.) have been limited due to the shortage of the metal.

Stockpile, 1957: The U. S. has deferred first quarter stockpile deliveries. There is growing speculation that as supply potentials increase the U. S. may revise its quotas on the amount of nickel needed (it's top secret) for strategic stockpile requirements. Indications are that second quarter stockpile deliveries will be set aside. But problems are growing out of the deferrals: 1. No government agency can tell how much is really going to non-defense users. 2. There is a growing question as to what is becoming of Nicaro production.

Metallic nickel from Nicaro is selling for the primary market price of 74 cents a pound. Sinter and powder is less expensive. Under the government sanctioned and Inco administered distribution program, companies are only allowed a specific portion of market price nickel. They may buy as much premium price nickel as they can get. Gray market nickel, coming principally from Japan, is drawing as much as $2.50 per pound. The Nicaro nickel diverted from government stockpile quotas cannot be purchased by nickel users if it would run them over their allotments of market price material. If industry must refuse critically needed nickel, it may mean that the unused share of Nicaro production (see Table 1) will find its way back to stockpile. Flexibility in the current distribution program will be a must in the coming months if industry is to benefit.

Controls: There will be discussion during the year about the merits of reinstating government controls. But look for the Eisenhower administration to shy away from such a program. Gordon Gray, new director of the Office of Defense Mobilization, comes in with a reputation for getting things done and being able to solve difficult problems. One of his toughest will be nickel and he may find that he will have to override the thinking of certain men in the nickel field who would like to do everything possible to protect their own future markets.

Finale: This year will not be materially different from last. There will be more nickel, but demand will grow, too. Congressional interest may help to bring about a more workable and pliable distribution program.

Nickel is riding the crest of the need for high temperature and corrosion resistant metals. It will continue to do so.

As far as the companies entering the field are concerned, we present a table giving the vital statistics for each—but we want to point out that the earnings figures do not represent results of new nickel ventures, which must be kept under observation for future investment implications.

—END

Contrast in Corporate Diversification

(*Continued from page* 687)

partly because it was believed that Squibb would furnish a stable base of sales.

The two major companies formed the Olin Mathieson Chemical Corp. in August, 1954, reporting combined sales of $470 million. A year before the merger, Mathieson had purchased a 50% interest in Reaction Motors, Inc., which had sales of $4.7 million. This company, like Aerojet, was engaged in aircraft liquid fuel research and production. Sales are in the $14 million range, and the backlog of new orders is growing

steadily. (There are 244,000 shares traded over-the-counter, and a recent price was 33 bid.) A second move in 1954 enhanced Olin Mathieson's participation in aircraft and guided missiles, namely, a 25% investment in Marquardt Aircraft Co. in California. (There are 212,000 shares traded over-the-counter, priced recently at 46½ bid.) The company makes the well-known "Ram-jet" engine and other jet accessories. Sales are in the neighborhood of $25 million, and orders are increasing rapidly.

More Chemicals

In June, 1955, Olin Mathieson acquired Blockson Chemical Co., a producer of sodium phosphates and by-products. End uses for the products are detergents, disinfectants, fungicides, and so forth. Sales at that time were in the $30 million area, operations were habitually prosperous, and, as acquisitions go, a substantial price was paid for the property. In addition to the new sales and good profit margins, Olin Mathieson was able to supply chemicals for its own diversified product line.

Importance of Light Metals

Olin Mathieson, which already possessed a firm footing in brass fabricating, was alert to discover the merits of aluminum. Envisioning a wide market both in its own operations and in the general consumer market, Olin Mathieson made moves to expand and acquire existing aluminum fabricators. As an initial step, an aluminum research organization in California was purchased. This was followed by other acquisitions and the building up of facilities in Illinois, Mississippi and California. As an aid to its need for frequent construction work, the well-reputed F. H. McGraw & Co. was invested in to the extent of 40% of the latter's common stock. McGraw is one of the better known builders of chemical, metal and other heavy type plant projects. Perhaps the crowning development in the aluminum program is the new primary aluminum plant now abuilding in the Ohio River Valley. Revere Copper & Brass and Olin Mathieson are joint owners and operators of the plant, which is expected to cost $120 million and produce 180,000 tons per year. Much of this output is to be consumed by the two partners.

Research and Expenditures

The welding together of the various divisions and activities of General Tire and Olin Mathieson is being strengthened by the development of strong central research laboratories. General Tire has made a number of important contributions to the scientific world of rubber and plastics, while Olin Mathieson is hard at work on such esoteric subjects as catalysts, radiation, structural strengths and other basic studies. Olin Mathieson's Squibb Division is endeavoring to learn more about tranquilizers and virus antibiotics.

While General Tire is presumably open to further attractive acquisitions, Olin Mathieson feels that the time has come to develop from within rather than by mergers. Capital expenditures of both companies have increased during the past year or so, particularly for Olin Mathieson. A record sum was expended in 1955, and the programmed average in 1956-1960 is about $90 million per year.

Five Years of Progress

The time eventually comes, of course, when the investor wants to know whether all this diversification is likely to have a "pay-off" in terms of higher earnings and dividends. As Al Smith used to say, "Let's take a look at the record!"

As of 1952, Mathieson Chemical reported sales of $147 million, net income of $13.6 million, and earnings of $2.35 on 5,440,000 shares of common stock. The average market valuation for the stock was $230 million, and the shares sold about 18 times earnings. Profit margins were satisfactory, and the liberal evaluation of earnings reflected general investor optimism over the chemical industry.

Meanwhile, the sales of General Tire were improving slowly every year, so that the 1952 report disclosed a volume of $186 million. The net was $6.1 million, equal to $4.84 per share on 1,202,000 shares. The market value of the stock was about $33 million, and the shares sold at 5.5 times the annual earnings.

(*Please turn to page* 730)

Contrast in Corporate Diversification

(*Continued from page* 729)

The first leg of the race at this juncture appeared to favor Mathieson as the winner, inasmuch as profit margins were good and the chemical industry was, after all, a "growth" industry. General's price range in 1952 was 31-24, while Mathieson's range was 49-38.

Sales in Sharp Uptrend

Sales of both companies continued to increase during the buoyant following years. Olin Mathieson's volume jumped from $147 million in 1952 to $244 million in 1953 and $470 million in 1954 (largely from acquisitions and mergers). General Tire's sales rose from $186 million in 1952 to $205 million in 1953 and $217 million in 1954. Mathieson's debt increased, and, after the 1954 merger with Olin, the number of common shares outstanding hopped to 11,006,000. General Tire's debt and common share capitalization increased minutely, but several issues of preferred stock were authorized to purchase other companies.

While sales increased, costs also inflated. There were heavy expenditures connected with the mergers, interest and preferred dividend requirements were up and labor and material costs grew heavier each year. Olin Mathieson's profit margins were hard put to keep up with the dizzy pace of organizational changes, and the cash flow from depreciation and earnings lagged behind. General Tire was encountering similar difficulties with margins, although margins of profitability had been low for such a long length of time, that the management was perturbed to find other ways of raising cash and credit. As management had expected, competition in the rubber business grew tougher rather than easier, and the plastics industry became flooded with new candidates.

General Tire's Outlook Improves

Nevertheless, there was a wide, prosperous band of silver around the dark clouds for General Tire. The building up of our air armada, the forecast that jet engines would replace propellors and that guided missiles would do what mere human pilots could not achieve in supersonic flight, all these bright vistas created a happy aura for the Aerojet-General Tire's activities. Beginning in 1955, it became increasingly apparent that Aerojet occupied the driver's seat in the matter of solid and liquid jet fuels. Ameri-

(*Please turn to page* 732)

Income Data

	Olin-Mathieson Sales ($ Mil.)	General Tire Sales ($ Mil.)	Olin-Mathieson Net Income ($ Mil.)	General Tire Net Income ($ Mil.)	Olin-Mathieson Earnings Per Share ($)	General Tire Earnings Per Share ($)	Olin-Mathieson Shares Out (000)	General Tire Shares Out (000)
1952	147.1	185.9	13.6	6.1	2.35	4.84	5,440	1,202
1953	243.6	205.4	18.8	6.3	3.30	4.91	5,457	1,235
1954	470.1	217.0	34.3	4.5	2.02	3.18	11,006	1,244
1955	560.5	295.7	44.6	11.6[1]	3.36	7.67[1]	12,972	1,550
1956	580[e]	390.5	45[e]	10.9[1]	3.45[e]	6.90[1]	13,000	

Balance Sheet Data

	Olin-Mathieson Assets ($ Mil.)	General Tire Assets ($ Mil.)	Olin-Mathieson Market Value of Stock ($ Mil.)	General Tire Market Value of Stock ($ Mil.)	Olin-Mathieson Workng Capital ($ Mil.)	General Tire Workng Capital ($ Mil.)	Olin-Mathieson Debt ($ Mil.)	General Tire Debt ($ Mil.)
1952	249.7	113.2	2.30	32.5	77.2	38.2	80.5	19.0
1953	259.9	120.2	1.87	33.8	83.1	44.7	77.2	23.0
1954	474.2	150.8	5.40	47.0	174.8	44.7	153.2	22.1
1955	621.8	183.2	7.40	66.5	193.6	52.4[2]	199.6	21.1

[e]—Estimated.
[1]—Restated.
[2]—Reported at $66.9 mil. as of 11-30-56.

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On April 6, 1956 when the market reached its highest point for 1956, Boeing closed at 81⅜—while General Dynamics closed at 61⅛. Despite the decline that has taken place since then, Boeing has appreciated 25⅝ points — while General Dynamics has gained 30⅜ points.

Boeing Airplane was recommended to subscribers at 46—prior to the 2-for-1 stock split in 1954 which marked our cost down to 23. On August 6, 1956, Boeing was split again, 2-for-1, reducing our cost to 11½ for the new shares which are selling at 53½ — representing 365% enhancement. Cash dividends of $1.25 in 1956 represented a 10.8% yield on our original buying price and 2% stock dividend was paid in December1956.

Also, we recommended General Dynamics in April, 1954, at 43. It was then split 2-for-1, marking our cost down to 21½. It was split 3-for-2 in 1956 further reducing the cost to less than 14⅜. General Dynamics has now reached 61 — to show 324% gain from our original recommended price. The current dividend yields 10.2% on our cost.

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Contrast in Corporate Diversification

(*Continued from page* 730)

can Potash, which was among the first to become active in researching and supplying boron for fuels, saw its stock triple by mid-1956. Reaction Motors, in which Olin Mathieson has an interest, showed prodigious market progress. At this point, General Tire's common stock was beginning to push for first position. The tally for 1955 was a stock range of 65-49 for Olin Mathieson and a range of 66-46 for General Tire.

The turning point was still to come, for Olin Mathieson's stock was liberally appraised during 1955 with a market valuation of $740 million, while General Tire stock was equal to $66 million, still a considerable discount from sales and assets.

The Record Brought Up to Date

Olin Mathieson is expected to report 1956 sales of about $580 million, slightly above the 1955 volume and 300% higher than in 1952. Net income should prove to be in the vicinity of $45 million, and the earnings on nearly 13,000,000 shares may be around $3.45. Priced recently at 45, Olin Mathieson sells about 13 times these estimated results. (The market value is about $585 million.) This ratio appears to be a realistic appraisal, in terms of earnings, profitability and outlook, but the stock price represents a 38% decline from the 1956 high of 62. Psychologically, it appears that investors have "downgraded" the chemicals stocks, above all, those which have failed to develop better earnings on a given volume of sales during the past twelve months.

General Tire, in its recent report, proudly announced that fiscal 1956 sales were $390 million, about 32% higher than the fiscal 1955 volume and 110% higher than the sales in 1952. The consolidated net income was reported at $10.9 million, down slightly from the comparable 1955 period ($11.6 million). Last year, General Tire made a fairly significant change in its manner of reporting, by consolidating for the first time the sales and earnings of the radio-TV operations and including these in 1955 and 1956 statements.

General Tire & Rubber's present common stock capitalization consists of 1,550,000 shares, the market value for which is about $110 million. The stock is selling about 10 times earnings, which is the most liberal appraisal for the company's operating profit in some length of time. It would appear that rubber and plastics operations are still being conducted at a relatively low margin of profit. What has drastically changed the picture has been the inclusion of sales and income from the broadcasting business and the wholly dynamic improvement in Aerojet-General. Whereas the price times earnings multiplier for Olin Mathieson has undergone a downward revision, General Tire's multiple has reached a new high level.

Dividend disbursements were the same for both companies during 1956. Olin Mathieson paid $2.00 per share from its estimated $3.45 per share earnings, and this rate of payment seems relatively secure during 1957. Last year, General Tire paid $2 in cash dividends from the reported $6.80 per share. Early in 1957, a stock dividend of 4% was declared.

Olin Mathieson's outlook in 1957 does not suggest much change in earnings, although the investor's position may be improved temporarily by the prospect that additional common shares may not be issued at least for the time being. General Tire, aided by increased income from Aerojet-General and General Teleradio, and possibly by better earnings from the automotive specialties, should display a worthwhile improvement in 1957 earnings. If the increase in earnings were as much as 20%, as seems attainable, the cash dividend might be raised. The current yield on the present cash payment is only 2.9%.

Although the stock market price for General Tire has nosed well ahead of Olin Mathieson, it must be remembered that the former company has only 1.6 million shares outstanding and the latter has 13 million shares. Thus the element of leverage is important. If General Tire is able to develop earnings in excess of $9-$10 per share, it is obvious that market enthusiasm could justify further appreciation for the stock. As to Olin Mathieson, the year 1957 will probably find little change in demand for industrial and agricultural chemicals, paper and cellophane, drugs and fabricated products. The long term outlook for Olin Mathieson is at least better than mediocre, and, in time, Olin Mathieson's entry into aluminum should prove to be rewarding.

Just the same, it looks as though General Tire's jet propulsion should provide plenty of horsepower for this lap of the diversification race. END

Where Insufficient Water Power Is Drying Up Industrial Expansion

(*Continued from page* 683)

fabricated of material resistant to the chemical aggressiveness of the water. If industry can afford to pay the higher maintenance and installation costs, much more saline water can be used, thus making more fresh water available for operations which cannot afford to distill saline water, and have no cooling water demands.

At present, most of the conservation measures that have been mentioned are technically feasible; in some places they are economically feasible. The economic feasibility of these measures will become widespread as competition for water mounts.

The overall solution of the Nation's water problem requires facts—facts on a local scale involving all the variables of streamflow, storage, movement of ground water, and the mineral and sediment concentration characteristics of the water. The Department of Interior has made progress in collecting, compiling, and interpreting data on water resources, but the Department needs to know more details on the local scale. Especially needed is detailed knowledge on reclaiming waste water and of the requirements of industry both as to quantity and quality.

It should be emphasized that detailed knowledge of water resources and their uses is a prime essential to assure the most benefit and utility from those resources. For industry, this poses the problem of continuing research for new processes that will

use less water, and for ways and means to recapture and re-use its water; not just once, but many times. The Federal Government is giving the problem continuing study, but it cannot do the whole job—industry's wholehearted co-operation is needed, and will be welcomed, assures the U. S. Geological Survey, a division of the Department of Interior. END

Peril Point in Taxes

(*Continued from page* 680)

These are some, although by no means all, of the fundamental distorting effects of heavy taxation. They need to be viewed in the light of a further non-tax statistic which is their inevitable accompaniment; namely, a high and rising level of federal debt. In the early 1900's, the federal debt amounted to about $1 billion. It rose sharply during World War I, and then declined during the ensuing decade. During the thirties it climbed regularly, although not sensationally by later standards. During the 'forties, under the pressure of the first truly total war, the debt climbed fantastically, in $50 billion annual jumps. Today it is approximately $275 billion, almost fifteen times its level in 1932. (State and local governments debt is now about $50 billion, roughly three times as much as in 1932). The per capita federal debt is now almost $2,000 – as compared with $42 in 1902.

Effect of Enormous Federal Debt

Also noteworthy is the trend of the interest charge on the debt —the burden of carrying it. Currently, this burden amounts to fully $7 billion annually. Almost 9 cents of every tax dollar now goes merely to service the burden on existing debt. Note, too, that the debt service charge amounts to well over $40 per capita – it was less than $.25 in 1913, and less than $20 at the peak of World War II.

The debt is thus a key element in the self-propelling mechanism of federal spending and taxing. If Federal spending were to stop tomorrow, it would still be necessary to collect more federal revenue each year, just to service the debt, than was collected by the federal government for all purposes in 1940! And if all federal spending stopped tomorrow, it would still take 3½ years of taxes at current rates to pay off the debt!

What is Tolerable Taxation?

A not inconsiderable amount of research has been conducted in the past several decades on the subject of the tolerable limit of taxation in an essentially free-enterprise system. Most of this research seems to point to a conclusion which could hardly be more relevant for America in 1957. When the total tax revenues extracted from the income stream of a free-enterprise economy approach 25%, massive distortions of the enterprise process begin to appear. These distortions take many forms: weakening of incentives, increased preference for capital gains over income, destruction of real saving, loss of incentive to save, exhaustions of national growth, curtailment of discovery, impairment of private investment, lessening of competition. One could continue indefinitely. What is striking about this collection of distortions is that they all operate in one monetary direction: toward inflation. Moreover, they are as specific a formula for inflation as could be concocted out of the entire economic pharmacopeia.

In the first place, by hindering reinvestment and national growth, they act to curtail supply, and there is no better way of fighting inflation than by increasing supply – a fact with which manufacturers of aluminum and a host of other formerly scarce commodities are at the moment quite impressed.

In the second place, by destroying saving and swelling consumption, they add pressure to markets at the very same time that they are limiting the capacity of producers to add to the flow of new supply.

In the third place, by destroying incentives to work they reduce the efficiency with which work is performed, and hence add to the unit labor cost of every product. In the long run, selling prices must cover these added costs.

In the fourth place, by attacking the roots of smaller companies and preventing their growth, they reduce the number of competitors in every market. In this sense, high taxes and the Sherman Anti-trust act are in a basically antagonistic position; as long as taxes stay at their present levels, the Justice Department is bound to be waging a losing battle against the forces of concentration in industry. And, typically, as concentration increases the economic forces which normally restrain prices are attenuated.

Most Serious Effect of High Taxes

Finally, and perhaps most disastrously of all, continuing high tax rates appear to foster a progressive paternalism on the part of government. This is natural enough, for government is bound to step in to attempt to replace the private initiative and business energy which taxes themselves are attenuating. This paternalism takes many forms; one of its most acute forms, however, is the gradual recognition and elevation of mass pressure groups. Labor is a compelling illustration, but there are certainly others, already in existence or waiting their opportunity. The effects of this bombardment of pressures on the government are, again, all in the direction of inflation, through the pork-barrel appeasement of one group after another, at the expense of the monetary unit.

This catalog of inflationary horrors is far from being an accurate portrait of the situation of the United States in 1957. But it is essential to note that the national tax levy is now in excess of the 25% level which in other countries, and at other times, has led inexorably to the conditions described above. And there are enough evidences that the processes of deterioration are at work to put the case for raising the warning signs. This is the essential, if tacit, point which Secretary Humphrey has been making insistently in recent weeks. We must not depend on national growth to bail us out of our present tax rates, because there is already some doubt about how much more growth we will enjoy if we do not first reduce the rates. This amounts to saying that American taxes are now at the peril point. The peril point will not move: it is tax rates that must move, if the peril is to be avoided. END

76 Active Stocks Appraised and Rated

(*Continued from page* 703)

of the financial and fundamental strength of companies – their working capital position – order backlogs – and earnings-dividend outlook for the period ahead.

Since the first of the year we have been very careful to avoid making recommendations, in order to be sure our selections are sound and well timed. It is particularly important to do so–to be sure of a company's continuing progress – and whether the ratio of earnings and dividends is such as to assure dividend regularity and ability to withstand any shocks that may come.

As our regular readers will recall, during the past year our profitable selections of individual issues among the aircrafts, business machinery, coal mining and carriers – and other special situations–have shown exceptional independent strength regardless of general market fluctuations.

In January of this year our recommendations consisted of bank stocks, with a special recommendation of Chase Manhattan because of a unique situation existing since the merger of these two financial entities–and in the February 2nd edition we called attention to the companies that would receive the largest defense contracts from the government for the fiscal year starting July 1, 1957 – headed by Boeing, General Dynamics and United Aircraft – because these orders would insure continuing activity, although it must be recognized there is a time gap between orders, deliveries and actual payments.

And we will continue to recommend sound issues as their position is clarified for the near and intermediate term. We do not believe that it is sound policy to base investments on the long-term outlook of the market, except where the prospects are above average.

In the meantime, we will endeavor to keep our subscribers continually aware of changes in the outlook for companies in which they are stockholders, even if it will consist purely of tables and comments, so that they will be quickly available. In the following two pages, we have covered a large group of active issues presenting the latest vital statistics on each–and giving specific individual comments on their 1957 potentials. You will find this to be a helpful, quick reference table.

Further, as an additional service at this time, we call your attention to our special article in this issue of the Magazine, covering investment insurance–under Professional Methods for Protecting Capital – which gives a clear-cut explanation of the use of "puts" and "calls", and how they can be employed as a hedge against market fluctuations while maintaining your position in securities that you would prefer to retain for longer range investment considerations – or for taking a speculative position.

A wise Wall Street veteran once said, "Procrastination is the thief of profits"– and for that reason we suggest that it is much better to take action that will protect your position than to do nothing and hope for the best. END

Answers to Inquiries

(*Continued from page* 714)

and will be reflected favorably in 1957 earnings.

Reported 1956 net sales and rentals were $771,635,021, compared with $714,793,543 in 1955. Net income after taxes amounted to $34,824,096, compared with $35,989,780 in 1955. Earnings, after deduction of $2,886,331 for dividends on the preferred stock, were equivalent to $2.92 per common share on 10,938,965 shares outstanding. Earnings of $33,-103,369 applicable to common stock in 1955 were $3.04 per share on 10,885,591 shares.

Late in 1956 an International Division was formed to carry out the company's expansion overseas. Overseas subsidiaries have grown to three – American Can Co. de Venezuela, S.A., the Puerto Rican Can Co. and American Can Internationale Inc., of Panama. In addition the International Division will administer technical assistance agreements with foreign can companies in nine countries.

Current quarterly dividend is 50 cents per share. Prospects over coming months continue favorable. END

As I See It!

(*Continued from page* 675)

Ocean whose basic features would be uncompromising hostility to the West and close association with the Soviet Union and Communist China.

Nasser is still far from achieving this goal. In fact, like all professional blackmailers and like all political megalomaniacs, he is already sowing the seeds of his own destruction. There is evidence that he is beginning to antagonize and frighten some of his staunchest supporters among the Arab nations. But so far, our own country has bailed him out whenever his aggressive brashness was about to get him into serious troubles. As long as we continue this short-sighted and immoral policy, the Middle East will remain the greatest threat to the stability of the free world. END

Objective: RETIREMENT

An Important Message to Investors with $20,000 or More

Most investors are aiming for eventual retirement . . . whether they hope to arrive at their goal in five, ten or twenty years.

We concur in their confidence that wise and timely investment of their capital can make this dream a reality . . . for despite temporary readjustments our nation is forging ahead in a new era of amazing scientific achievement, industrial advancement and investment opportunity.

In the coming months and years, we will see marvelous and practical progress in the conquest of space, in attainment of plant automation, in harnessing of atomic energy . . . with a host of new products, materials and techniques emerging.

These new forces will have profound investment significance for they will invigorate many companies—but often at the expense of less able competitors. TO YOU, as an investor, this adds up to an increased need for continuing investment research and capable professional counsel.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1957 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. *It is never necessary for you to consult us.*

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

Help in Minimizing Your Taxes:

We keep in mind the tax consequences of each transaction and help you to minimize your tax liability under the new tax provisions. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

Annual Personal Progress Reports:

Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

Full information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised—so if you will let us know the present worth of your account—or send us a list of your holdings for evaluation—we shall be glad to quote an exact annual fee . . . and to answer any questions as to how our counsel can benefit you.

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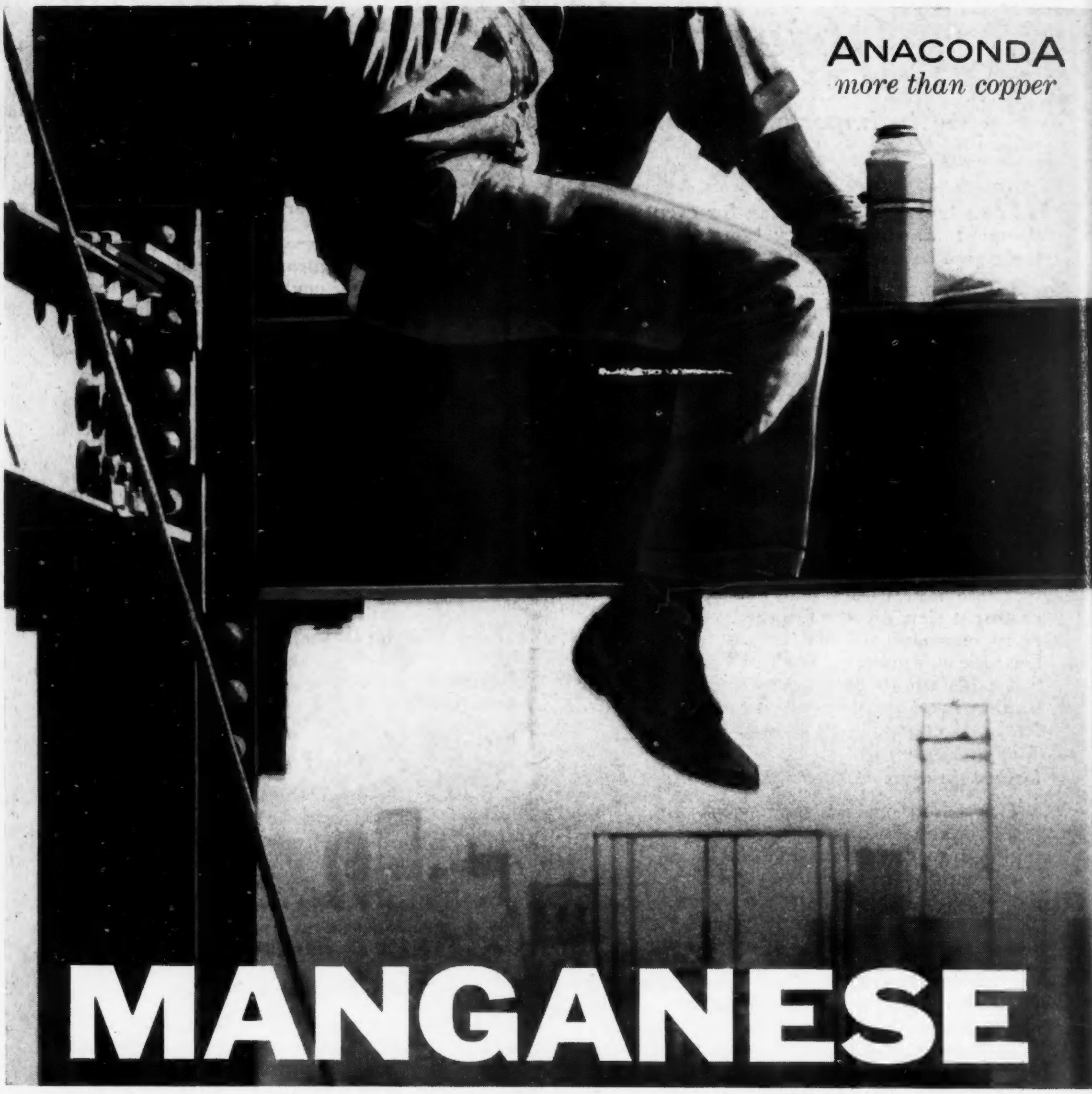

as important to steel as iron!

A world without steel is difficult to picture—but that's pretty much the kind of world we'd have if it weren't for manganese.

No matter by which of the modern processes steel is made, eleven to fourteen pounds of manganese go into every ton. And no satisfactory substitute for manganese has yet been found.

Manganese is important, too, in the chemical industry. And modern dry-cell batteries, like steel, could not be easily made without it. Most of the manganese used in the United States must be imported, and two-thirds of the world's reserves of high-grade ore lie in countries behind the iron curtain. The strategic importance of manganese is plainly evident. Anaconda's importance in manganese production is quite clear, too. Currently, over half of the domestic production of manganese comes from the "Emma Mine" in Butte, Montana.

This vital metal is just one of many in Anaconda's line of non-ferrous metals and metal products—the most extensive offered industry today.

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